THE INTERNATIONALIZATION OF EMERGING ECONOMY FIRMS: THE IMPACT OF CORPORATE GOVERNANCE AND POLITICAL CONNECTIONS

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ABSTRACT

This dissertation consists of two chapters on the internationalization of emerging economy firms. I examine the influence of the firm's corporate governance and political connections on the firm's internationalization behavior, as these factors reflect the special institutional environment of emerging economies.

In the first chapter I analyze the influence of a firm's corporate governance on its selection of host countries. Building on agency theory, I propose that in emerging markets, the governance structure of the firm modifies the usual prediction that favorable host-country institutions attract foreign direct investment, because the emerging country conditions lead to firm heterogeneity in risk preferences and agency problems. Hence, comparing family-controlled and state-controlled firms in emerging economies, I hypothesize that family-controlled firms with CEO duality or a higher proportion of independent directors on the board are more likely to invest in countries with higher institutional quality, while state-controlled firms with such characteristics are less likely to do so. These hypotheses are supported by the data on foreign market entries by China's public listed firms in 2004-2013.

In the second chapter I introduce the upper echelons perspective to study the impact of top managers' political connections on the firm's degree of internationalization. I differentiate between two types of political connections by the top manager: executive connections established through current or past working experience in the executive branch of the government, and legislative connections established through current or past representational appointments in the legislative branch of the government. After comparing the three mechanisms (resources, costs, and personal values) through which top managers' political connections can influence the firm's degree of internationalization, I propose that top managers' executive

connections facilitate the firm's internationalization, while legislative connections hinder the firm's internationalization. The impact of top managers' executive and legislative connections is weakened by state ownership. Furthermore, I propose that CEO duality strengthens the effects of top managers' political connections on the firm's degree of internationalization. I find empirical support for my theories based on a dataset of 100 publicly traded Chinese firms over the 2004-2013 period.

DEDICATION

This dissertation is dedicated to my husband Markus for his unconditional love and support, and to my daughter Emily for constantly reminding me what is important in life.

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Many thanks to Yigang Pan for his support and advice, to Preet Aulakh for his invaluable feedback on my research, and to Ashwin Joshi for his constant encouragement. Special thanks to Alvaro Cuervo-Cazurra, Mona Makhija, Kannan Ramaswamy, and Fernando Suarez for their insightful comments on my dissertation. Others to whom I am grateful are Peter Darke and Christine Oliver. I am also very grateful for comments received at the 2015 Academy of Management Conference and the 2014 Academy of International Business Conference. Finally, I am indebted to faculty, staff and students at York for their help and support.

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CHAPTER ONE: INTRODUCTION AND MOTIVATION

1.1 INTRODUCTION

My dissertation examines the internationalization of emerging economy firms. In this chapter, I first review the relevant literature and identify the gaps, and then I state my research questions, followed by a more detailed description of the two essays in the dissertation.

1.2 REVIEW OF LITERATURE

1.2.1 Literature on FDI Location Choice

Foreign direct investment (FDI) location choice is an important topic in international business (IB), as it has substantial consequences for the survival and overall competitive advantage of the multinational enterprise (MNE) (Cantwell, 2009; Dunning, 1998). The dominant theories in the IB field provide diverse explanations for the selection of host countries.

The eclectic paradigm argues that firms prefer foreign countries that offer superior market or production opportunities, or opportunities to obtain inputs for production, such as natural resources (Buckley & Casson, 1976; Dunning, 1988, 1998). Along this stream of research, scholars have identified a series of economic factors as important determinants of inward foreign investment, such as the availability of natural resources, market size, market growth, labor cost, exchange rate and infrastructure quality (e.g., Bass, McGregor, & Walters, 1977; Billington, 1999; Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007).

The Uppsala internationalization process model explains the firm's selection of host country based on the psychic distance between host and home countries (Johanson & Vahlne, 1977). Psychic distance refers to the differences between home and host countries in terms of linguistic, institutional, cultural and political factors (Johanson & Vahlne, 1977). Empirical research finds that psychic distance negatively affects the probability of foreign market entry (Davidson, 1980), and multinational firms enter culturally proximate market first and then gradually move to more distant countries (Barkema, Bell, & Pennings, 1996).

As the institutional theory gains prominence in the IB field (North, 1990), many scholars have started to examine the influence of the institutional environment on the MNE's activities (Coeurderoy & Murray, 2008; Globerman & Shapiro, 2002; Henisz, 2000; Slangen & Beugelsdijk, 2010). The general arguments in this stream of literature are that institutional distance between host and home countries (i.e., the differences between host and home countries in terms of cognitive, normative and regulatory dimensions) discourages MNE's entry (Xu & Shenkar, 2002); and that the institutional quality of the host country (i.e., the extent to which institutions are well established in the society) has a positive effect on inward foreign investment (Fan, Morck, Xu, & Yeung, 2009; Globerman & Shapiro, 2002; Slangen & Beugelsdijk, 2010).

Recent research on emerging economy MNEs (EE MNEs) indicates that the firm's risk preferences, political capabilities, strategic motives and government affiliations might change the direction and magnitude of the relationship between institutional quality of the host country and MNE's probability of market entry (Buckley, Devinney, & Louviere, 2007; Cuervo-Cazurra & Genc, 2008; Holburn & Zelner, 2010; Li, Li, & Shapiro, 2012; Meyer, Ding, Li, & Zhang, 2014). For instance, some scholars find that state-owned firms are less sensitive towards institutional hazards in the host country, relative to privately-owned firms (Duanmu, 2014; Ramasamy, Yeung, & Laforet, 2012). However, these studies focus on the goal and risk preference of the controlling shareholder, and have ignored the potential agency conflicts in the firm's FDI location decision (Ellstrand, Tihanyi, & Johnson, 2002; Strange, Filatotchev, Lien, & Piesse, 2009), which arise because managers and shareholders have conflicting interests in the selection of host countries due to the differences in their goals and risk preferences (Globerman, Peng, & Shapiro, 2011; Morck & Yeung, 2014; Sun & Tong, 2003; Zou & Adams, 2008). The first essay in my dissertation seeks to address this gap in the literature.

1.2.2 Literature on Corporate Governance and Internationalization

Corporate governance refers to the set of "formal structures, informal structures, and processes that exist in oversight roles and responsibilities in the corporate context" (Hambrick, Werder, & Zajac, 2008, p. 381). Due to imperfect and asymmetric information and a divergence of objectives between the shareholders and managers in modern corporations, shareholders have to establish monitoring and controlling mechanisms to ensure that their objectives are achieved (Jensen & Meckling, 1976). Most researchers in management have primarily focused on the influence of three internal governance mechanisms on the firm's international expansion:

managerial incentives, board of directors, and ownership (Aguilera, Desender, Bednar, & Lee, 2015; Buckley & Strange, 2010).

In terms of managerial incentives, agency theory suggests that shareholders can reduce the agency costs by aligning the interest of the managers with that of shareholders through managerial equity ownership and long-term compensation (Jensen & Meckling, 1976). Sanders and Carpenter (1998) find that the firm's degree of internationalization is higher when the level of chief executive officer (CEO) pay is higher and more long-term. Liu, Lu and Chizema (2014) find that top executives' cash pay and equity ownership is positively associated with the firm's foreign direct investment.

In terms of board structure, agency theory suggests that directors of the board can monitor managers' activities and protect shareholders' interests from the corporate management (Jensen & Meckling, 1976). Board structure has been found to influence the firm's internationalization decisions (Ellstrand et al., 2002; Sanders & Carpenter, 1998). Ellstrand et al. (2002) find that firms with a higher proportion of independent directors, or firms that separate the CEO and chairperson positions, are associated with a higher level of political risk in their portfolio of foreign investment. Datta et al. (2009) find that firms with such board structures are more likely to endorse acquisition over joint ventures in foreign market entries. Sanders and Carpenter (1998) find that the separation of chairperson and CEO positions is associated with a higher degree of internationalization.

In terms of ownership, George, Wiklund and Zahra (2005) find that external owners, such as venture capitalists and institutional investors, are more likely to increase the firm's scope of internationalization. Ownership by institutional investors is found to be positively related to firm's international diversification (Tihanyi, Johnson, Hoskisson, & Hitt, 2003). Bhaumik,

Driffield and Pal (2009) find that family ownership is negatively associated with internationalization, but foreign ownership has a positive effect. Filatotchev, Strange, Piesse and Lien (2007) argue that parent firm's ownership structure is associated with its share ownership in overseas subsidiaries. Specifically, they find that family ownership, non-family insider ownership and domestic institutional ownership are negatively related to the parent firm's share ownership in its overseas subsidiary, but foreign financial institutional ownership is positively associated with the share ownership in subsidiary. In the Chinese context, state ownership has been found to affect the firm's decision to internationalize, degree of internationalization, and the selection of host countries (e.g., Duanmu, 2014; Liang, Ren, & Sun, 2014; Pan, Teng, Supapol, Lu, Huang, & Wang, 2014; Ramasamy et al., 2012).

The comparative corporate governance literature shows that the monitoring role of the board is contingent upon the ownership structure of the firm (Aguilera & Jackson, 2003; Desender, Aguilera, Crespi, & García-cestona, 2013; Thomsen & Pedersen, 2000). This is because concentrated ownership increases block shareholders' incentive and ability to play an active monitoring role, and also because different types of investors pursue different interests. However, in the literature on corporate governance and internationalization, there is still a lack of understanding of how the ownership structure and board structure of the firm jointly determine the firm's decision to internationalize.

The literature has shown that corporate governance is markedly different in emerging economies relative to that in advanced economies (Desender, Aguilera, López-puertas-Lamy, & Crespi, 2016; Jiang & Kim, 2015; Luo, Chung, & Sobczak, 2009). In the US and UK context, corporate governance is featured by dispersed ownership, and the main agency conflict is between managers and shareholders (Eisenhardt, 1989). However, in the emerging economy

context, due to ownership concentration and an underdeveloped institutional environment, there are conflicts both between managers and shareholders, and between controlling shareholders and minority shareholders (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). In addition, most publicly listed firms are controlled by family block shareholders or state block shareholders (Fan, Wong, & Zhang, 2007; Luo et al., 2009; Sun & Tong, 2003). These special features challenge the traditional predictions of agency theory, and require a more refined model to explain the firm's risk preferences and internationalization decisions. The current literature in the emerging economy context has mostly focused on the impact of ownership on the firm's internationalization (Bhaumik et al., 2009; Duanmu, 2014; Filatotchev et al., 2007), but very few studies have investigated the impact of the board structure on the firm's internationalization.

Therefore, in the literature on corporate governance and internationalization, I have identified two gaps: First, the role of board structure on firm's internationalization should be interpreted based on the specific type of ownership; second, there are very few studies that investigate the impact of board structure on the firm's internationalization in the emerging economy context.

1.2.3 Literature on Top Management Team and Internationalization

The top management team is an important corporate governance actor (Aguilera et al., 2015). The current literature in IB extends the upper echelons perspective to explain the role of top management team on the firm's internationalization. Prior findings suggest that elite education, younger age, heterogeneity and international experience of the top management team are associated with higher levels of internationalization, because these factors reflect the top management team's risk propensity, cognitive base, capability to process diverse information and access to resources (Carpenter & Fredrickson, 2001; Reuber & Fischer, 1997; Tihanyi,

Ellstrand, Daily, & Dalton, 2000). However, given that all of these studies are conducted in the advanced economy context, it is unclear how the top management team affects the firm's internationalization in the emerging economy context (Qian, Cao, & Takeuchi, 2013).

In addition, recent studies in the upper echelons literature have shown that top managers can imprint their personal values into the organizational decision making process (Chin et al., 2013; Li & Liang, 2014). For instance, Christensen, Dhaliwal, Boivie and Graffin (2015) find that firms run by more politically conservative managers are more risk-averse in their strategies than more liberal managers. However, the current IB literature has not explored the personal values of top managers on the firm's internationalization behavior.

The upper echelons theory suggests that the relationship between the attributes of the top management team and the firm's strategic outcomes is contingent upon the discretional power of the managers (Chin et al., 2013; Finkelstein & Hambrick, 1990). The discretional power of managers refers to the freedom that top managers are granted in taking actions within the organization (Finkelstein & Hambrick, 1990). According to agency theory, managers' relative power in the firm is constrained by the board of directors (Eisenhardt, 1989). In addition, managers' discretional power can differ significantly because of firm ownership and national context (Crossland & Hambrick, 2007). However, prior literature on top management team and the firm's internationalization has not identified the boundary conditions for the managers' values/characteristics to enter into the firm's strategic decisions.

In sum, in the literature on top management teams and internationalization, I have identified three gaps: First, these is a lack of understanding regarding the role of top management teams in the emerging economy context; second, the political activities of top managers as indicators of managers' personal values are relatively underexplored in the IB context; and third,

there is a lack of understanding regarding the boundary conditions for the relationship between the attributes of the top management team and the firm's internationalization.

1.2.4 Home Country Institutional Environment and Internationalization of EE MNEs

MNEs are embedded in their home country, which is why the institutional environment of the home country has an important influence on the firm's strategies (Cuervo-Cazurra, 2012; Luo et al., 2009; Peng, Wang, & Jiang, 2008). The influence of the home country institutional environment on the firm's internationalization strategy is especially important for emerging economy MNEs, because most of them do not have the firm ownership advantage that facilitates their internationalization (Rugman & Nguyen, 2014), and their successful internationalization reflects the influence of factors, such as home government support, entrepreneurial leadership, and home country culture traits (Child & Rodrigues, 2005; Contractor, 2013; Cui & Jiang, 2012; Luo & Tung, 2007). In this dissertation, I identify two special features shaped by the underdeveloped and network-based institutional environment in the emerging economies: corporate governance and political connections.

Corporate governance is embedded in the specific institutional context (Aguilera & Jackson, 2003; Luo et al., 2009). In emerging economies, corporate governance is featured by concentrated ownership, weak protection for shareholder rights, and control by family, state and business groups in publicly listed firms (Claessens, Djankov, & Lang, 2000; Dharwadkar, George, & Brandes, 2000; Young et al., 2008). Luo and Yung (2007) suggest that corporate governance in emerging economies can be a hindrance for the internationalization of EE MNEs, because EE MNEs might be perceived to be less accountable, transparent and trustworthy due to poor corporate governance. There are many studies that examine the influence of ownership structure on the firm's internationalization strategies (e.g., Bhaumik et al., 2009; Duanmu, 2014;

Meyer et al., 2014), but there is relatively little understanding regarding the influence of other internal governance mechanisms, such as the board of directors and managerial incentives on the firm's internationalization.

Another special feature of emerging economies is the predominant role of the government in the business sector (Child & Rodrigues, 2005; Shi, Markoczy, & Stan, 2014). Many studies show that state ownership affects the firm's internationalization strategies, such as FDI location choice, entry mode, equity ownership in the subsidiary and degree of internationalization (e.g., Cui & Jiang, 2012; Kang & Jiang, 2012; Meyer et al., 2014), but very few studies investigate how managers' political connections affect the firm's internationalization (Liang et al., 2014; Pan et al., 2014). Top managers build political connections through current or past experience of holding positions in the government, and this personal political engagement should directly reflect the manager's personal values (Chin et al., 2013; Hambrick & Mason, 1984; Li & Liang, 2014). However, prior research tends to focus on the economic or social costs and benefits of political connections, and neglect the implication of political connections on managers' personal values.

1.3 RESEARCH QUESTIONS

Specifically, this dissertation addresses the following research questions: (1) What is the role of governance structure in MNE's selection of host country? (2) What is the effect of top managers' political connections and the firm's governance structure on the firm's degree of internationalization? The common theme under these two questions is the influence of corporate governance actors (i.e., top management team, controlling and minority shareholders, and board of directors) and the internal governance mechanisms (board structure and ownership structure) on the firm's internationalization.

1.3.1 Chapter Two

In this Chapter, I explain how board and ownership characteristics influence emerging market firms' FDI location choice.

Agency theorists argue that the representation of independent board members and the separation of CEO and chair positions of the board can mitigate agency costs through enhanced board vigilance (Eisenhardt, 1989; Fama & Jensen, 1983), and thereby encourage firms to assume a higher level of risk in international investments (Ellstrand et al., 2002). However, the comparative corporate governance literature shows that the monitoring role of the board is contingent upon ownership structure of the firm (Aguilera & Jackson, 2003; Desender et al., 2013; Thomsen & Pedersen, 2000), because concentrated ownership increases the block shareholders' incentive and ability to play an active monitoring role, and different types of investors pursue different interests. Therefore, building on prior literature on corporate governance and internationalization, I investigate how the types of controlling shareholder (family vs. state) in the publicly listed firm moderates the impact of board structure on the firm's selection of host countries.

Agency theory is concerned with the conflict between top managers and all shareholders (Eisenhardt, 1989). As top managers are more risk-averse than dispersed shareholders, a stronger board ensures the top management team takes on more risks in the firm's strategies (Datta et al., 2009; Deutsch, 2005). In addition to top managers and dispersed shareholders, there are two additional corporate governance actors in the emerging economy context: family and state controlling shareholders. When I conceptualize the degree of risk-aversion on a continuous scale, the family owner is the most risk-averse, followed by top managers, minority shareholders and the state.

Therefore, a stronger board, characterized by a higher representation of independent directors and the separation of CEO and chair positions, does not necessarily lead to more risk-taking in the context of foreign investments. I conduct an analysis of the risk preferences of all corporate governance actors and the monitoring role of the board. Based on the results, I argue that a higher representation of independent directors in family-controlled firms increases the likelihood of entering foreign countries with high institutional quality, while for state controlled firms the likelihood is decreased. The separation of CEO and chair positions in family controlled firms decreases the likelihood of entering foreign countries with high institutional quality, while for state-controlled firms the likelihood is increased. I test these ideas on a comprehensive sample of foreign market entries by publicly listed Chinese firms in 2004-2013, and find strong empirical support for the hypotheses.

This essay contributes to two strands of literature. First, I add to the literature on the governance structure of the firm and its internationalization strategies (Bhaumik et al., 2009; Datta et al., 2009; Filatotchev et al., 2007), by being one of the first to analyze how the ownership of the firm interacts with internal governance mechanisms to determine FDI location choice. As I mentioned before, some studies have discussed how internal governance affects FDI location choice, while others have analyzed differences between family- and state-owned firms. Both of these approaches have important drawbacks. The former approach does not consider the fact that the monitoring role of the board is affected by the ownership structure of the firm, whereas the latter approach ignores the possibility that the controlling shareholder exert their goals and preferences for the firm via the board and the top management team. Therefore, it is necessary to explain how the interaction of board structure and ownership structure affects firms' FDI locations.

Second, I contribute to agency theory by integrating two approaches: The first highlights the problems that arise from conflicts of interest between managers and shareholders and the various mechanisms designed to mitigate these conflicts (Fama & Jensen, 1983; Jensen & Meckling, 1976), while the second focuses on the differences in objectives and agency problems among firms with different dominant shareholders (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Young et al., 2008). I explain how these two agency relationships interact with each other in the context of emerging market firms. The underdeveloped institutional environment and the unique ownership structure of emerging economy MNEs require a modification of some of the traditional agency arguments, because emerging economies are characterized by higher levels of information asymmetries, less sophisticated regulation and worse contractual enforcement. My findings provide a better understanding of how some of the unique characteristics of emerging economy MNEs that arise from the influence of their country of origin, affect the MNE's internationalization (Lu, Liu, Wright, & Filatotchev, 2014; Luo & Tung, 2007; Meyer et al., 2014; Morck, Yeung, & Zhao, 2008).

1.3.2 Chapter Three

Top management team is a key corporate governance actor (Aguilera et al., 2015). In this essay, I examine the influence of top management team's political connections and the moderating effect of the firm's internal governance mechanisms (ownership and board structure) on the firm's degree of internationalization.

Generally, the literature on top managers' political connections suggests that political connections affect organizational outcomes by providing resources in various forms (e.g., bank loans, relaxed regulatory oversight, privileged access to information, and political expertise), or by exposing the firm to government intervention (e.g., imposing government policies and

political goals) (Faccio, 2006; Fan et al., 2007; Pan et al., 2014; Shi et al., 2014). These studies' focus on the economic or social costs and benefits of political connections neglects the influence of political connections on the top manager's personal values. Top managers' personal values refer to "a broad tendency to prefer certain states of affairs over others" (Hofstede, 1980: 19). Drawing from the upper echelons perspective, I propose that top managers build political connections through current or past experience of holding positions in the government, and this personal political engagement should directly reflect the manager's personal values (Chin et al., 2013; Hambrick & Mason, 1984; Li & Liang, 2014).

I differentiate between two types of political connections by the top manager: i) executive connections established by working in the executive branch of the government and ii) legislative connections established by holding a representational appointment in the legislative branch of the government. These political activities reflect different personal values. I argue that top managers' executive connections in privately-owned firms indicate that these managers are more receptive to changes and willing to take risks, whereas top manager's executive connections in state-owned firms indicate that they emphasize stability and authority (Ralston, Terpstra-Tong, Terpstra, Wang, & Egri, 2006). In contrast, top managers' legislative connections in both state and privately owned firms reflect the manager's pro-social value (Li & Liang, 2014), that is, the motive to serve and benefit the larger society.

Integrating the personal value view with the resource and state control views of top managers' political connections, I propose that these two types of top managers' political connections can influence the firm's degree of internationalization by bringing different levels of resources to the firm, exposing the firm to different levels of state control and injecting different personal values of the top managers into the firm's strategic choice. After comparing the three

mechanisms, I argue that top managers' executive connections facilitate the firm's internationalization, whereas legislative connections hinder the firm's internationalization.

Furthermore, I propose two moderators for the relationship between top managers' political connections and the firm's degree of internationalization: ownership type and the dual role of chief executive officer (CEO) and chairman of the board. Ownership type affects the strength and direction of the relationship between top managers' political connections and the firm's degree of internationalization through its influence on resources, state control, and managers' personal values in the organization. Specifically, I argue that executive connections have a positive impact on the firm's degree of internationalization in privately owned firms, but the effect is much weaker in state owned firms. Legislative connections have a negative impact on the firm's degree of internationalization in privately owned firms, but the effect is much weaker in state owned firms.

CEO duality refers to the practice that the CEO of the firm also chairs the board (Finkelstein & D'Aveni, 1994). CEO duality reduces the constraints of the board over the top managers' actions, and thereby provides greater freedom for top managers to inject their personal values into the firm's strategic choices (Chin et al., 2013). Therefore, I predict that CEO duality strengthens the relationship between top managers' political connections and the firm's degree of internationalization. These conjectures are confirmed by an empirical test based on a dataset of 100 publicly traded Chinese firms over the 2004-2013 periods.

This essay makes two major contributions. First, it contributes to the current literature on top managers' political connections by adding the upper echelons perspective. I propose that top managers' political connections affect firm strategies through three interrelated mechanisms: i) resources, ii) cost, and iii) managers' personal values. The third mechanism is very important, as

it explains why managers with executive connections and managers with legislative connections have opposing preferences for internationalization; and why existing research that does not differentiate between the types of managers' political connections has not found any significant relationship between top managers' political connections and the firm's degree of internationalization. Second, I contribute to the upper echelons literature. IB scholars have found that top management team's demographic attributes, composition and international experience affects the firm's internationalization strategies (Carpenter & Fredrickson, 2001; Lee & Park, 2008; Reuber & Fischer, 1997; Tihanyi et al., 2000). I add to this literature by establishing the relationship between top managers' political connections and the firm's degree of internationalization. In addition, I extend the upper echelons literature by examining the impact of top management team on internationalization in an emerging collective and socialist country.

The dissertation is structured as follows. In Chapter 2, I examine the impact of corporate governance on the firm's selection of host countries. In Chapter 3, I study the influence of top management team's political connections and firm's governance structure on the firm's degree of internationalization. Finally, in Chapter 4, I conclude with a discussion of the results.

CHAPTER TWO: CORPORATE GOVERNANCE AND FDI LOCATION CHOICE

2.1 INTRODUCTION

The location choice of foreign direct investment (FDI) is an important topic in international business research as it has substantial consequences for the performance and survival of multinational firms. The existing literature suggests that host country institutional environment is a major consideration in the MNE's FDI location choice (Cantwell, 2009; Dunning, 1998). It is generally accepted that institutional quality, i.e., the extent to which market supporting institutions are well developed in the country, tend to result in higher levels of inward FDI because well-established institutions reduce the risk and uncertainty in the market and facilitate business transactions (e.g., Coeurderoy & Murray, 2008; Delios & Henisz, 2003; García-Canal & Guillén, 2008; Globerman & Shapiro, 2002; Henisz, 2000; Slangen & Beugelsdijk, 2010).

Recent research on emerging economy MNEs (EE MNEs) indicates that firm's risk preferences, political capabilities, strategic motives and government affiliations might change the direction and magnitude of the relationship between institutional quality of the host country and MNE's probability of market entry (Buckley, Devinney, & Louviere, 2007; Cuervo-Cazurra & Genc, 2008; Holburn & Zelner, 2010; Li, Li, & Shapiro, 2012; Meyer, Ding, Li, & Zhang, 2014). For instance, some scholars find that state owned firms are less sensitive towards institutional hazards in the host country, relative to privately owned firms (Duanmu, 2014; Ramasamy, Yeung, & Laforet, 2012). However, these studies have ignored the potential agency problem in the firm's FDI location decision (Ellstrand, Tihanyi, & Johnson, 2002; Strange, Filatotchev, Lien, & Piesse, 2009), which arises because managers and shareholders have conflicting interests in the selection of host countries due to the differences in their goals and risk preferences (Globerman, Peng, & Shapiro, 2011; Morck & Yeung, 2014; Sun & Tong, 2003; Zou & Adams, 2008).

I provide additional insights on the idea that firms are heterogeneous in their selection of host countries by going deeper into the notion that EE MNEs differ in their behavior and, building on agency theory (Jensen & Meckling, 1976), analyze how the governance of the firm affects its internationalization. Agency problems are more pronounced and have particular features in emerging markets. The reason is that the usual controls on managerial misbehavior (e.g., incentive systems, board of directors, market for corporate control, and market for executives, Fama and Jensen, 1983) are not as efficient as those in advanced economies, because of the higher levels of information asymmetries, less sophisticated regulation and worse contractual enforcement that characterize emerging economies (Globerman, Peng, & Shapiro,

2010; Morck & Yeung, 2014; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008; Zou & Adams, 2008).

Specifically, I explore further the governance structure of emerging market firms and link two streams of literature to explain how board and ownership characteristics influence emerging market firms' FDI location choice. Agency theorists argue that the representation of independent board members and the separation of CEO and chair positions of the board can mitigate agency costs through enhanced board vigilance (Eisenhardt, 1989; Fama & Jensen, 1983), and thereby encourage firms to assume a higher level of risk in international investments (Ellstrand et al., 2002). However, the comparative corporate governance literature shows that the monitoring role of the board is contingent upon ownership structure of the firm (Aguilera & Jackson, 2003; Desender, Aguilera, Crespi, & García-cestona, 2013; Thomsen & Pedersen, 2000), because concentrated ownership increases the block shareholders' incentive and ability to play an active monitoring role, and different types of investors pursue different interests. Therefore, building on prior literature on corporate governance and internationalization, I investigate how the types of controlling shareholder (family vs. state) in the publicly listed firm moderates the impact of board structure on the firm's selection of host countries.

Agency theory is concerned with the conflict between top managers and all shareholders (Eisenhardt, 1989). As top managers are more risk averse than dispersed shareholders, a stronger board ensures the top management team takes on more risks in the firm's strategies (Datta, Musteen, & Herrmann, 2009; Deutsch, 2005). In addition to top managers and dispersed shareholders, there are two additional corporate governance actors in the emerging economy context: family and state controlling shareholders. When I conceptualize the degree of risk-

aversion on a continuous scale, the family owner is the most risk-averse, followed by top managers, minority shareholders and the state.

Therefore, a stronger board, characterized by a higher representation of independent directors and the separation of CEO and chair positions, does not necessarily lead to more risk-taking in the context of foreign investments. I conduct an analysis of the risk preferences of all corporate governance actors and the monitoring role of the board. Based on the results, I argue that publicly listed firms with significant family ownership characterized by CEO duality (i.e., the same person holding the CEO and chair positions) or a higher proportion of independent directors are more likely to invest in countries with favorable institutional environment, while state-controlled firms with such characteristics are less likely to do so.

I test these ideas on a comprehensive sample of foreign market entries by publicly listed Chinese firms in 2004-2013, and find strong empirical support for the hypotheses.

The second chapter contributes to two strands of literature. First, I add to the literature on the governance structure of the firm and its internationalization strategies (Bhaumik, Driffield, & Pal, 2009; Datta et al., 2009; Filatotchev, Strange, Piesse, & Lien, 2007), by being one of the first to analyze how the ownership of the firm interacts with internal governance mechanisms to determine FDI location choice. As I mentioned before, some studies have discussed how internal governance affects FDI location choice, while others have analyzed differences between family and state-owned firms. Both of these approaches have important drawbacks. The former approach does not consider the fact that he monitoring role of the board is affected by the ownership structure of the firm, whereas the latter approach ignores the possibility that the controlling shareholder exert their goals and preferences for the firm via the board and the top

management team. Therefore, it is necessary to explain how the interaction of board structure and ownership structure affects firms' FDI locations.

Second, I contribute to agency theory by integrating two approaches: the first highlights the problems that arise from conflicts of interest between managers and shareholders and the various mechanisms designed to mitigate these conflicts (Fama & Jensen, 1983; Jensen & Meckling, 1976), while the second focuses on the differences in objectives and agency problems among firms with different dominant shareholders (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Young et al., 2008). I explain how these two agency relationships interact with each other in the context of emerging market firms. The underdeveloped institutional environment and the unique ownership structure of emerging economy MNEs require a modification of some of the traditional agency arguments, because emerging economics are characterized by higher levels of information asymmetries, less sophisticated regulation and worse contractual enforcement. My findings provide a better understanding of how some of the unique characteristics of emerging economy MNEs that arise from the influence of their country of origin, affect the MNE's internationalization (Lu, Liu, Wright, & Filatotchev, 2014; Luo & Tung, 2007; Meyer et al., 2014; Morck, Yeung, & Zhao, 2008).

2.2 THEORETICAL BACKGROUND

2.2.1 Agency Theory and Corporate Governance in Emerging Markets

I build on agency theory to explain how corporate governance affects FDI location choice by emerging economy MNEs. Agency theory focuses on understanding the relationships between two parties that enter an agency relationship in which the principal delegates to the agent the ability to make decisions on his/her behalf (Ross, 1973). Due to imperfect and

asymmetric information, and a divergence of objectives between the principal and the agent, the principal has to establish monitoring and controlling mechanisms to ensure that his/her objectives are achieved. The agency theory is traditionally viewed as explaining the relationship between shareholders and managers (Jensen & Meckling, 1976), but it can be applied to any relationship between two parties in which one asks the second to do something on their behalf, such as employment relationships, strategic alliances or supplier and distribution networks.

In the realm of corporate governance, the traditional view of agency theory is concerned with the agency problems that arise from the separation of ownership and control in the shareholders-as-principals and managers-as-agents relationship (Fama & Jensen, 1983; Jensen & Meckling, 1976). In addition to differences in objectives, shareholders and managers typically have different attitudes toward risk, with managers being more risk-averse than shareholders because more of their future wealth and human capital is at stake if the decisions are not successful (Eisenhardt, 1989). Moreover, the agency problems are exacerbated further because managers have more firm-specific knowledge and the ability to gather tacit information about the firm and their own actions that shareholders do not have, which leads to greater information asymmetry between managers and shareholders.

Although agency theory has universal appeal, some of its assumptions need to be modified when analyzing corporate governance in emerging markets. First, most emerging economies are characterized by underdeveloped institutional environment (Dharwadkar, George, & Brandes, 2000; Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002; Khanna & Palepu, 2010) that heighten agency problems. Agency theory was developed by analyzing the behavior of firms in advanced economies, such as the United States, which are characterized by: i) a relatively well-established institutional system where shareholders and managers can establish

contractual agreements that can be easily enforced in courts, ii) well-established and sophisticated regulations and regulatory agencies that can compel managers to disclose appropriate information to shareholders, and iii) properly enforced laws and regulations that protect shareholders from managerial misbehavior. In contrast, emerging economies tend to have worse institutions that result in greater agency problems for several reasons. There is greater information asymmetry between managers and shareholders due to the existence of less developed accounting and disclosure standards and weaker regulatory agencies. The level of sophistication for laws and regulations that aim to prevent managerial misbehavior, shareholder misbehavior and the expropriation of minority shareholders (the so-called principal-principal problem (Young et al., 2008)) is relatively low. It is more difficult to enforce contracts, rules and regulations, due to more inefficient judicial systems and, in some countries, a lack of independence of judges from government interference and an openness of judges to accept bribes (Djankov et al., 2002). These weaker institutions are reflected in the particularities of corporate governance practices of emerging economies (Claessens, Djankov, & Lang, 2000; Globerman et al., 2010).

Second, most emerging economies are characterized by high ownership concentration (Claessens et al., 2000; Young et al., 2008), which creates unique agency problems. Agency theory was developed based on the assumption of dispersed ownership (Berle & Means, 1932), the norm in large publicly traded companies in the United States. Small shareholders are not incentivized to monitor top managers because such shareholders are likely to have ownership positions in many firms, which makes monitoring particularly costly. Moreover, small shareholders do not have sufficient power to influence managerial decisions or votes at shareholder meetings (such as voting on the board of directors). However, when ownership is

concentrated, as is the case in most firms from emerging economies, the controlling shareholder has both the incentive and the capability to monitor top managers, and to exert substantial influence over the firm's strategic decisions (Thomsen & Pedersen, 2000). A controlling shareholder has a significant portion of her financial wealth concentrated in a single firm, which makes monitoring less costly. Due to the controlling shareholder's concentrated position in the firm, she will also be able to reap most of the rewards from an increase in the stock price, and exert sufficient influence at shareholder meetings to block unwanted managerial decisions or appoint directors of the board. As a result, there are two types of principal-agent problems in emerging economies: conflicts of interests between shareholders and managers, and between the controlling shareholder and minority shareholders (Kato & Long, 2006a).

Thus, I analyze corporate governance issues in emerging markets and extend agency theory by challenging some of its implicit assumptions. Although in the empirical analysis I study the behavior of Chinese firms (a more detailed description of the specific characteristics of Chinese corporate governance practices appears in the research design), the arguments are likely to hold for other emerging markets as well.

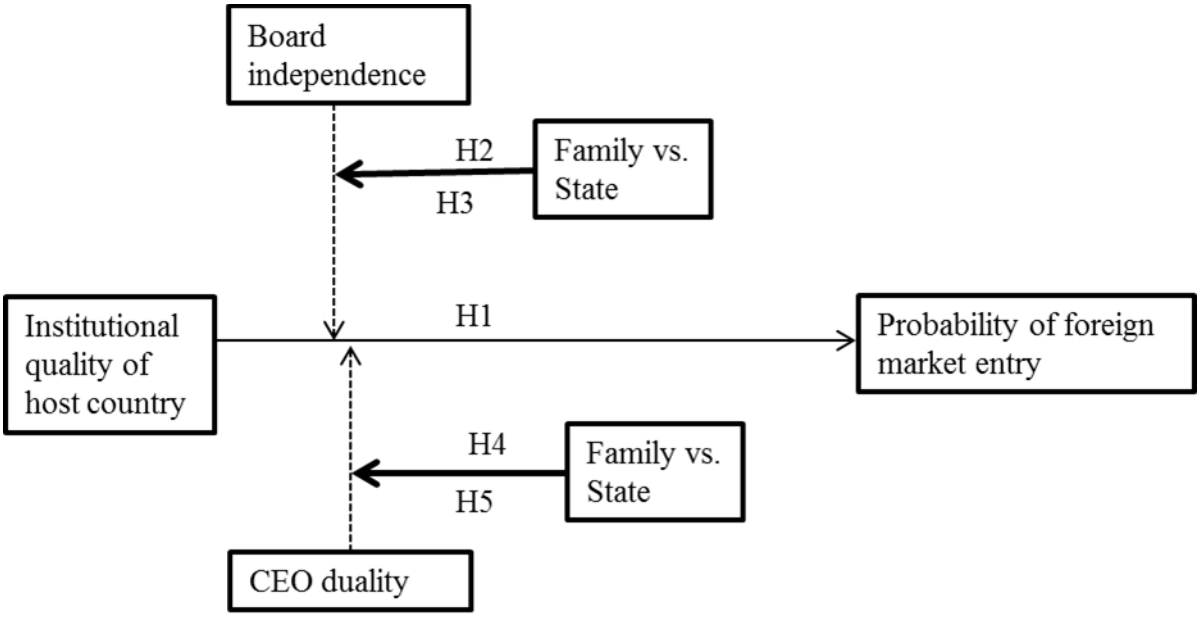
2.2.2 Conceptual Model

In this chapter, I examine the impact of corporate governance structure on the FDI location strategy of publicly listed firms in China. FDI exposes the MNE to great risks as it often involves massive fixed investments that are irrevocable in the foreign market (Globerman & Shapiro, 2003). Entering countries with poor institutional quality might inflate the risk of foreign investment (Cuervo-Cazurra & Genc, 2008; Fan, Morck, Xu, & Yeung, 2009). However, the benefit of investing in countries with poor institutional quality is that the MNE might be able to enjoy monopoly rents in less developed and less competitive markets in the long term (Garcia-

Canal & Guillen, 2008). In contrast, investing in more developed economies endows the MNE with a safe environment, but it also means lower expected returns on investment, as the MNE is competing with other well-established and potentially more competent MNEs in a saturated market. Rugman and Nguyen (2014) show that emerging economy firms do not become more profitable by investing in developed economies. Given the high outcome uncertainty of FDI location choice, agency problems exist in the decision making process (Eisenhardt, 1989). I conjecture that the board of directors and ownership structure, as internal control mechanisms to alleviate agency problems, play an important role in making the location decision of firms' outward investment (Ellstrand et al., 2002).

Considering that state and family owners have different goals and risk attitudes (Chen et al., 2009), the governance mechanisms designed based on the general assumption that managers are more risk-averse than shareholders should have a differential impact depending on the type of firm. Therefore, it is necessary to examine the role of the board of directors on a firm's FDI location choice separately for state- and family controlled firms. I argue that in family controlled firms, CEO duality and a higher proportion of independent directors strengthens the positive impact of host country institutional quality on foreign market entry; whereas in state controlled firms, these two board characteristics weakens the relationship. The hypothesized relationships depicted in the conceptual model (Figure 2-1) are explained in details in the next section.

Figure 2- 1: The Relationship between Institutional Quality, Governance Structure, and Foreign Market Entry



2.3 HYPOTHESES

2.3.1 Institutional Quality and Foreign Market Entry

Institutional quality is the extent to which pro-market institutions are well established in the society (Djankov et al., 2002; Fan, Morck, Xu, & Yeung, 2009; Khanna and Palepu, 2010), which include public agencies and policies that define and maintain economic, legal and social relations in the society (North, 1990). In the IB literature, scholars have proposed multiple mechanisms that connect the institutional quality of the host country with the probability of foreign market entry by MNEs (see Table 2-1).

Table 2- 1: Institutional Quality and the Probability of Foreign Market Entry

Context	Institutional quality	Mechanisms	Details	Empirical/theoretical support
MNEs from developed economies	Positive impact on the probability of entry	Risk	e.g., Better legal protection of assets reduces the chance of expropriation; Better intellectual property protection reduces the chance of knowledge leakage	Coeurderoy and Murray (2008); Delios and Henisz, (2003); Globerman and Shapiro (2002); Henisz (2000); Slangen and Beugelsdijk (2010)
MNEs from emerging economies	Negative impact on the probability of entry	Risk preference	Firms are less sensitive towards risk.	Buckley et al. (2007); Duanmu (2014)
		Capability	Institutional advantage/political capabilities of MNEs from emerging economies	Cuervo-Cazurra and Genc (2008); Holburn and Zelner (2010); Martin (2014)
		Institutional barriers	Ideological conflicts, perceived threats to national security	Cui and Jiang (2012); Meyer et al. (2014)
	Positive impact on the probability of entry	Motive	Strategic asset seeking motives of MNEs from emerging economies; Escape from institutional constraints from home countries.	Li, Li, and Shapiro (2012); Luo and Tung (2007); Yamakawa, Peng, and Deeds (2008)

All else equal, multinationals are more likely to invest in countries with better institutional quality (Coeurderoy & Murray, 2008; Delios & Henisz, 2003; Globerman & Shapiro, 2002; Slangen & Beugelsdijk, 2010). The arguments are that well established institutions protect property rights and employee safety, facilitate business transactions and information flow in the market, and thus minimize the cost and risk of doing business for both

local and foreign firms (Duanmu, 2014; Khanna & Palepu, 2010; North, 1990). The implicit assumption of studies on advanced economy firms is that they are transferring their proprietary technologies and capabilities to other countries, and such firms prefer countries that not only offer great market opportunities, but which also enables firms to protect their intellectual property rights from imitation by local competitors and expropriation by alliance partners (Zhao, 2006). This does not imply that firms will completely forego countries with poor institutions, although some do, but that firms will be less likely to invest in such countries in comparison to countries with better institutions.

The main mechanism through which institutional quality has a positive impact on the probability of foreign market entry for advanced economy firms is through risk reduction. However, existing studies on emerging economy firms have documented both positive and negative associations between institutional quality and the probability of foreign market entry. Several explanations have been proposed in the literature. First, some scholars argue that emerging economy firms, particularly state-owned firms, are less sensitive towards risk, which makes them more likely to enter countries with poor institutional quality (Buckley et al., 2007; Duanmu, 2014). Second, other scholars argue that institutional quality of the host country has a negative impact on the probability of foreign market entry for emerging economy firms, because they have experience with poor institutions at home, and they have developed the political capabilities to deal with corruption and policy uncertainty in less favorable institutional environment (Cuervo-Cazurra & Genc, 2008; Holburn & Zelner, 2010; Martin, 2014). Third, the negative association between institutional quality and the probability of foreign market entry has also been explained by the institutional barriers incurred due to perceived threats to national security and ideological conflicts between host and home countries (Cui & Jiang, 2012; Meyer et

al., 2014). Fourth, some scholars argue that institutional quality should have a positive effect on the probability of foreign market entry for emerging economy firms, because emerging economy firms are incentivized to acquire foreign strategic assets and to escape from domestic institutional constraints (Deng, 2009; Luo & Tung, 2007; Yamakawa, Peng, & Deeds, 2007). Many of the more sophisticated technological assets are created in countries with strong institutions that provide better incentives for firms to innovate via protected patents and an effective judicial system (Furman, Porter, & Stern, 2002). Like other investors, emerging economy firms are likely to be attracted to countries with high institutional quality so that their business activities are less constrained by underdeveloped institutional environment in the home country. Consistent with this view, Li, Li, and Shapiro (2012) find that Chinese firms have a higher propensity to invest in countries with a better institutional environment.

In sum, the direct relationship between institutional quality and the probability of foreign market entry is unclear for emerging economy MNEs. The existing literature offers several explanations based on firms' risk preferences, political capabilities, strategic motives, and the institutional barriers between host and home countries. However, I argue that the underlying assumption for these studies on emerging economy MNEs is actually consistent with the studies on advanced economy MNEs, which is that underdeveloped institutional environment should increase hazards for doing business and thereby reduce the probability of foreign market entry (Henisz, 2000; Slangen & Beugelsdijk, 2010). However, firm's risk preferences, political capabilities and strategic motives can moderate the relationship between institutional quality and probability of foreign market entry by changing the magnitude or direction of the relationship. One important reason why previous studies on emerging economy MNEs are not in agreement

about the sign of the relationship between institutional quality and the probability of market entry is that these studies have significant differences in terms of sample selection.

I therefore propose that, controlling for other factors, institutional quality should be positively associated with the probability of foreign market entry even for emerging economy MNEs. This does not exclude the possibility that emerging economy MNEs may be more likely to invest in countries with poor institutions relative to advanced economy MNEs. However, I do not analyze the relative difference in this chapter since my sole focus is emerging economy MNEs.

Hypothesis 1: Institutional quality of the host country increases the probability of foreign market entry by emerging economy firms.

2.3.2 Board Structure and FDI Location Choice

The existing literature suggests that the proportion of independent directors and the separation of CEO and chair positions may influence the firm's propensity to take risks in its international expansion (Datta et al., 2009; Ellstrand et al., 2002), leading to a higher probability of entering risky countries.

Agency theory was originally developed in the advanced economy, particularly Anglo-Saxon, context. The assumption is that the manager (the agent) is opportunistic (Eisenhardt, 1989). That is, without proper monitoring or incentives, the manager is more likely to pursue strategies that maximize her personal benefits rather than the interests of all shareholders (the principal). Because the manager is more risk-averse than shareholders, they prefer more conservative strategies. However, this type of strategy is viewed as an opportunity cost for shareholders (Deutsch, 2005). Thus, according to agency theory, the role of the board is to monitor top managers in order to ensure that managers cater to the interests of all shareholders.

In terms of risk-taking, the board should attempt to impose the risk preferences of the shareholders on the firm's strategic decisions.

Board independence refers to the extent to which the board is composed of outside directors (Dalton, Daily, Ellstrand, & Johnson, 1998). Inside directors are employees of the organization, and their compensation and career depend on firm performance. Inside directors are therefore expected to be more sympathetic to the risk preferences of the CEO relative to the firm's shareholders (Oviatt, 1988). Outside directors (or independent board directors) are board members who are currently not employed by the focal shareholding company or affiliated companies. Because they have no operational relationship with the company, they can objectively evaluate and monitor managerial decisions in order to protect the interests of shareholders (Deutsch, 2005). The literature shows that boards characterized by a higher proportion of independent board members are more likely to engage in risky strategies such as R&D investment or new product innovation (Chen & Hsu, 2009; Deutsch, 2005). In the context of internationalization, Ellstrand et al. (2002) find that firms with a higher proportion of independent directors are associated with high levels of political risk in their portfolio of foreign investment; while Datta et al. (2009) find that firms with a higher representation of independent directors are more likely to endorse acquisition over joint ventures in foreign market entry.

In sum, in the Anglo-Saxon context, a higher representation of independent directors enhances the monitoring role of the board, which should prevent managers from pursuing strategies that might hurt the interests of all shareholders. In this case, a more independent board encourages the firm to be less risk-averse (since dispersed owners are less risk-averse than top managers), which increases the likelihood that the firm invests in countries with lower institutional quality that are more risky, but which also yield higher potential long-term reward.

CEO duality refers to the practice that one person serves as both the CEO and the chairman of the board (Dalton et al., 1998). According to agency theory, CEO duality compromises the board's ability to monitor the CEO and leads to a more biased assessment of management decisions (Finkelstein & D'Aveni, 1994). The CEO is more risk-averse than the shareholders, and when the CEO also assumes the chair position, she can use her power to persuade the board to take conservative strategies that lead to stable firm performance rather than risky investments with a higher potential for long-term returns. For instance, CEO duality has been found to be negatively related to R&D investments and internal new product development (Deutsch, 2005). In the IB literature, Ellstrand et al. (2002) find that firms with CEO duality are associated with lower levels of political risk in their portfolio of foreign investment. Datta et al. (2009) find that firms with CEO duality are more likely to favor joint ventures over risky acquisitions in foreign market entry.

In sum, in the Anglo-Saxon context, CEO duality compromises the monitoring role of the board, which provides top managers more space to pursue strategies that best suit their personal interests. In this case, firms with CEO duality are more risk-averse, which will increase the probability that the firm enters countries with high institutional quality.

However, in the context of emerging economies, I argue that the ownership structure of the firm (state versus family) changes the risk preferences of the top managers and shareholders and modifies the monitoring role of the board, which results in diverging effects of board structure on the firm's selection of host countries. Thus, I do not provide or test formal hypotheses regarding the moderating effect of board structure on the probability of foreign market entry. However, the monitoring mechanism provides the basic argument for studying the interaction effect between board structure and firm ownership on the firm's selection of host

countries in terms of institutional quality. Table 2-2 shows the mechanisms that board structures affect the firm's FDI location choice for family and state controlled firms in the emerging economy context, as well as firms in the Anglo-Saxon context.

Table 2- 2: Board Structure, Firm Ownership and the Firm's Preference for Foreign Market Entry

Context	Assumption	Measure	Mechanisms	Risk preference	Institutio-nal quality
Anglo-Saxon	Top managers are **more** risk-averse than all shareholders	Representation of independent directors	Enhance board monitoring	Less risk-averse	Lower
		CEO duality	Weaken board monitoring	More risk-averse	Higher
China and other emerging economies	Family controlling owner is more risk-averse than top managers and minority shareholder	Representation of independent directors	Enhance board monitoring; better alignment of interests with the risk-averse controlling owner	More risk-averse	Higher
		CEO duality	Make top managers more risk-averse than all shareholders; reduce board monitoring	More risk-averse	Higher
	State controlling owner is **less** risk-averse than top managers and minority shareholder	Representation of independent directors	Enhance board monitoring; better alignment of interests with the risk-neutral controlling owner	Less risk-averse	Lower
		CEO duality	Make top managers less-risk averse than all shareholders; reduce board monitoring	Less risk-averse	Lower

2.3.3 Board Structure, Firm Ownership and FDI Location Choice

The main contribution of my study is to explain how the relationship between institutional quality and foreign market entry is modified by the internal governance of the firm, in particular by the interaction between the firm's ownership structure and board structure.

It is necessary to re-examine the moderating effect of board independence by taking into account the firm's ownership structure in the Chinese context. The reason is that independent directors represent the interests of all shareholders, but there is significant heterogeneity in terms of the risk preference among the various shareholders of the firm (dispersed minority shareholders versus the controlling shareholder, such as a family or the state).

Family owners are highly risk-averse as they cannot diversify their assets or employment opportunities (Strange et al., 2009). Research has shown that founder-owner firms are less likely to pursue high-risk strategies (Chen & Hsu, 2009; Fama & Jensen, 1983). The tendency of family-owners to be risk-averse is also supported by recent research on the internationalization of family-owned firms (e.g., Arregle, Naldi, Nordqvist, & Hitt, 2012; Bhaumik et al., 2009; Filatotchev et al., 2007). This stream of literature shows that family ownership is associated with a lower degree of internationalization, lower equity ownership in foreign subsidiaries and a lower probability of entering countries with low institutional quality.

The state as the controlling shareholder is typically assumed to be risk-neutral (Zou & Adams, 2008). There are several reasons for this argument. First, the de facto owners of state assets are the country's citizens (Kato & Long, 2006b), but the citizens (as collective owners) do not have any meaningful control over how state assets are managed and invested. Various government agencies represent the public to oversee state assets, but they do not bear any residual risks over the control and use of state assets (Lin, 2001), because the government officials' salary and career prospects tend to be linked to their administrative ranking rather than the performance of the assets being managed (Clarke, 2003; Zou & Adams, 2008). Second, the state (and state-owned holding companies) can diversify their investment and reduce portfolio risk by holding ownership positions in many firms (Sun & Tong, 2003). Third, the state might

prioritize political or social goals (e.g., national interests, social welfare and employment protection) over economic goals, in which case risk becomes a lesser concern in some strategic choices, such as acquiring critical natural resources for the home country economic development (Luo & Tung, 2007). The existing literature provides considerable empirical support for the idea that state-owned firms are virtually risk-neutral in their foreign investments (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Duanmu, 2014; Ramaswamy, Li, & Veliyath, 2002).

Minority shareholders in China are similar to dispersed shareholders in the advanced economy context in terms of risk-aversion. They can both reduce portfolio risk through diversification. Consequently, minority shareholders are much less risk-averse compared to the family as a controlling shareholder (Eisenhardt, 1989; Strange et al., 2009). However, compared with the risk-neutral state, minority shareholders remain more risk-averse.

Top managers in both advanced and emerging economy firms are primarily concerned with their job security, compensation and reputation (Eisenhardt, 1988). As they cannot diversify their employment or human capital, they are more risk-averse than minority shareholders, but much less risk-averse than the family controlling owner, whose financial wealth is concentrated within one firm.

In the Anglo-Saxon context, the prediction for the firm's overall risk preference in FDI location choice is inferred from the risk preferences of the top managers' and minority shareholders' based on the relative power of the two players. This relative power is determined by the firm's board structure. However, in the Chinese context, there are four relevant corporate governance actors: the family as a controlling owner, the state as a controlling owner, minority shareholders, and top managers; and the board structure determines whose risk preferences are more likely to be reflected in the firm's strategic decisions. Based on the discussion so far, when

the degree of risk-aversion (RA) is measured on a continuous scale from 0 to 10, I rank the family controlling shareholder as the most risk-averse (RA = 10), followed by the top manager (RA = 2), minority shareholder (RA = 1) and the state controlling shareholder (RA = 0). In the following two sections I will provide additional examples to illustrate how the board structure (independent directors and CEO duality) affect the firm's risk preferences, which determines the moderating relationship between institutional quality and the FDI location choice.

2.3.3.1 Independent directors, firm ownership and FDI location choice

In the Anglo-Saxon context, the existing literature has documented that a higher representation of independent directors enhances the monitoring role of the board, and thereby prevents the top managers from taking more conservative strategies. In the Chinese context, a higher ratio of independent directors also increases the monitoring role of the board. The existing literature finds that the presence of independent directors does improve the quality of corporate governance in China (Kato & Long, 2006a). For instance, board independence has been found to be associated with a greater pay-for-performance sensitivity, reduced incidence of fraud and insider self-dealing, and higher investment efficiency and firm performance in China (e.g., Chen, Firth, Gao, & Rui, 2006; Conyon & He, 2011; Liu, Miletkov, Wei, & Yang, 2015).

The personal risk preferences of independent directors are less relevant, as they are supposed to represent the interests (including risk preferences) of all shareholders. In the Anglo-Saxon context, firm ownership is dispersed among many small shareholders who are less risk-averse than the top managers, in which case a higher ratio of independent directors is associated with a better alignment of interests (and risk-preferences) with the less risk-averse shareholders, which results in the firm engaging in in more risk-taking strategies. However, in the Chinese context, I need to take into account the fact that ownership is typically concentrated with one

controlling owner (state or family), whereas minority shareholders hold only small stakes in the firm. Since independent directors represent the interest of all shareholders (in proportion to their ownership) and because the controlling shareholder (family or state) can either be more or less risk-averse than the top managers, it is no longer obvious whether a higher ratio of independent directors leads to more or less risk taking by the firm.

For family controlled firms, independent directors represent the interests of both the family-owner and the minority shareholders. In this case, the risk-aversion of independent directors (as representatives of the firm's shareholders) should be based on a weighted average of the risk-aversion of all shareholders in proportion to their ownership, i.e., family ownership * the family owner's risk-aversion + minority shareholders' ownership * their risk-aversion. To illustrate, using the degrees of risk-aversion (RA) discussed in the previous section and assuming that the family controls the firm via an ownership of 50.1 %, the degree of risk-aversion for independent directors is: 50.1%*10 + 49.9%*1 = 5.5. Therefore, a higher representation of independent directors on board enhances board monitoring (enabling the board to impose the risk preferences of the firm's investors), which increases the firm's risk aversion (from RA = 2 for top managers to RA = 5.5 for the firm's shareholders), which in turn encourages the firm to take less risks in foreign market entry.

For this argument to go through, it is necessary for the family controlling owner to be substantially more risk-averse than the top managers. As I already discussed in the previous section, family owners are likely to be highly risk-averse because of the extreme concentration of their financial wealth (and possibly also their human capital) within one firm. Many scholars have also noted that independent directors in China do not always represent the interests of all shareholders, because they are often nominated by controlling shareholders to protect the

interests of large rather than small shareholders in the firm (Clarke, 2006; Lin, 2001; Morck & Yeung, 2014). This argument would, in the context of the previous numerical example, imply that independent directors may put more weight on the controlling family-owner (RA = 10), and less weight on the minority shareholder (RA = 1). This would only serve to increase the risk-aversion of the independent directors further, resulting in an even higher probability for the firm to enter countries with good institutional quality.

Hypothesis 2: In family-owned firms from emerging markets, the proportion of independent board members strengthens the positive relationship between host country institutional quality and the probability of foreign market entry.

In contrast, for state-controlled firms, independent directors represent the interests of the state and the minority shareholders. Since the state is risk-neutral (RA = 0) and the minority shareholders have a relatively low degree of risk-aversion (RA = 1) compared to top managers (RA = 2), it becomes clear that the risk-aversion of the independent directors will be somewhere between 0 and 1, depending on the relative ownership positions of the state and the minority shareholders. In this case, independent directors are less risk-averse than the top managers, which implies that a higher proportion of independent directors on board enhances board monitoring and encourages risk taking. Thus,

Hypothesis 3: In state-owned firms from emerging markets, the proportion of independent board members weakens the positive relationship between host country institutional quality and probability of foreign market entry.

2.3.3.2 CEO duality, firm ownership and FDI location choice

In the Anglo-Saxon context, CEO duality affects the firm's selection of host countries by reducing the monitoring role of the board. Because top managers are more risk-averse than

dispersed shareholders, firms featured by CEO duality are more likely to enter countries with better institutional quality. However, in the Chinese context, I argue that CEO duality affects the firm's risk preference by changing the top management team's risk preference and compromising the monitoring role of the board.

In family-controlled firms, CEO duality often occurs when the founder of the firm assumes both the CEO and chair positions (Bhaumik et al., 2009; Peng, Li, Xie, & Su, 2009). Compared with CEOs who are most concerned with employment security and reputation, CEOs with dual roles have not only substantial human capital invested in the firm, but also highly concentrated financial wealth in the firm. Therefore, CEOs with dual roles ("family-owner-CEOs") are considerably more risk-averse (RA = 10) than CEOs without such dual roles (RA = 2). CEO duality will also compromise the monitoring ability of independent directors (who represent the interests of both the controlling owner, and minority shareholders) because family-owner-CEOs can influence other top managers through their constant interactions. Therefore, in family-controlled firms featured by CEO duality, top managers become extremely risk averse, which increases the likelihood that the firm enters countries with high institutional quality.

Hypothesis 4: In family-owned firms from emerging markets, CEO duality strengthens the positive relationship between host country institutional quality and the probability of foreign market entry.

In state-controlled firms, CEO duality plays a different role because the state has multiple goals (Sun & Tong, 2003). On the one hand, the state wants the firm to run efficiently to increase the return on investment and contribute to the national budget. On the other hand, the state needs to fulfill political and social goals, such as maintaining employment levels, social stability, and national interest. Unfortunately, these goals are not always compatible (Clarke, 2006). For

instance, keeping redundant employees hurts firm performance, but it contributes to societal stability. These incongruent goals of the controlling shareholder create problems for both the boards and the CEO, because the CEO may misconstrue the priority of different goals and the board directors have no clear criteria to evaluate and monitor the CEO (Clarke, 2003). This problem is alleviated in state-owned firms characterized by CEO duality. In standard agency theory, CEO duality exacerbates the agency issue because the agent has more power to pursue her own interests at the expense of all shareholders. In contrast, I argue that in state-owned firms, the CEO is bewildered by the multiple goals of the controlling shareholder. CEO duality resolves this problem by better aligning the interests of the CEO with that of the controlling shareholder.

CEO duality in state owned firms aligns the interests of the manager with the political interest of the largest owner, the state. In SOEs it is important to consider the political aspirations of CEOs in analyzing their goals and risk preferences (Fan, Wong, & Zhang, 2007). In firms that the state holds substantial ownership, the government appoints the CEO or the chair of the board from among civil servants (Lin, 2001; Morck & Yeung, 2014) and these appointees consider their career within the state apparatus. The CEO or chair of the board of a successful firm might be promoted to administrative positions such as the head of an important agency in a province or state or the mayor of a large city; while successful civil servants heading an agency in a province or state or the mayor of a dynamic small city might be promoted to important managerial positions in SOEs such as chairman or manager (Morck & Yeung, 2014). When CEO duality occurs, the CEO often has a visible political career, and the political/social goal is amplified. The political clout of CEO duality in state-owned firms can also be seen from the fact that many of these CEOs assume roles in external organizations, including non-governmental ones, to achieve corporate agendas (e.g., Dal Bo, 2006; Lee, Humphreys, & Pugh, 1997).

Even though agency theory predicts that top managers are generally risk-averse, such a tendency is decreased by CEO duality among state-owned firms. Investing in countries with weak institutions that have close diplomatic ties with the home country may be seen as a way to support the government's political objectives, which contributes to the political career of the CEO of an SOE (Morck et al., 2008). In this case, firm performance is of second-order importance for the manager. In addition, the stronger political role of the CEO also increases her propensity to enter countries with higher risk and lower institutional quality as her personal risk attitude might resemble that of civil servants in charge of supervising state assets. In sum, the CEO with dual role as chairman of the board is less risk-averse (closer to the risk-neutral state) because she is very powerful and influential in the society, in which case the performance of the firm cannot jeopardize her career (Morck & Yeung, 2014). In addition, CEO duality reduces the monitoring role of the minority shareholders. Since the relatively less risk-averse minority shareholder cannot exert their influence over the board when CEO duality exists, the risk-preferences of the firm will more closely resemble that of the risk-neutral state. Thus,

Hypothesis 5: In state-owned firms from emerging markets, CEO duality weakens the positive relationship between host country institutional quality and the probability of foreign market entry.

2.4 RESEARCH DESIGN

I test my theoretical model with foreign market entries by publicly listed firms in China for two reasons. First, my hypotheses concern the role of corporate governance in emerging economies. Previous research has studied the impact of governance structure on organizational strategies in developed economies (Datta et al., 2009; Ellstrand et al., 2002), but there is a lack of understanding of how the governance structure affects internationalization in emerging

economies. The corporate governance system in China started in the early 1990s, and the institutional environment surrounding the corporate governance system remains underdeveloped, which is similar to the governance system in many other emerging economies (Claessens et al., 2000; Globerman et al., 2010; Young et al., 2008). Second, most overseas investments by Chinese firms, especially by privately owned Chinese firms, started after 2004. This context therefore provides a great opportunity to study the role of governance structure on firms' FDI location choice, as the outcome of foreign investment is more uncertain for less experienced MNEs.

2.4.1 Corporate Governance in China

In the early 1990s, as part of the economic reform in China, many large and medium-sized state-owned enterprises (SOEs) were transformed into publicly listed firms on the two national stock exchanges, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. To maintain the ideology of the socialist market economy, the Chinese government retains a substantial ownership of most privatized enterprises (Sun & Tong, 2003). Since 2004, an increasing number of private firms, especially family firms, have been listed on the market (Cai, Luo, & Wan, 2012).

China's public listed firms have five different types of shares: state shares, legal person shares, employee shares, A- and B-shares (Jiang & Kim, 2015). State shares in China are held by the central government, local government, or solely government-owned enterprises. Legal person shares are owned by state controlled legal persons, or privately controlled legal persons. Employee shares are issued to workers and managers of a listed company, but the quantity is limited. A-shares are ordinary equity shares that are exclusively available to Chinese citizens and domestic institutions. B-shares are issued to foreigners and people from Hong Kong, Macao and

Taiwan. State shares and legal person shares are substantial and non-tradable in China's listed firms until the split-share structure reform in 2005 that requires all shares tradable starting from 2005 (Liao, Liu, & Wang, 2014).

The ownership of China's publicly listed firms is highly concentrated. In most firms, there is a single dominant shareholder that has considerable power and influence over the way the firm is run (Chen, Firth, & Xu, 2009). The controlling shareholder has a significant influence over the appointment of the CEO and the board members (Conyon & He, 2011; Sun & Tong, 2003). Based on the identity of the controlling shareholder, in this chapter, I classify a firm as state-owned if it is controlled by the state (including government agencies and state owned enterprises affiliated to the central or local governments). I classify a firm as family-owned if its ultimate owner is an individual or family member who controls the voting rights in the firm (Cheng, Lin, & Wei, 2014; La Porta, Lopez-De-Silanes, & Shleifer, 1999).

Chinese company law provides for a two-tiered board structure, consisting of a board of supervisors and a board of directors (Lin, 2001). The intention is that the board of supervisors performs an overseeing role, whereas the board of directors plays an active managerial role. However, the supervisory board has been shown to be ineffective in monitoring management (Fan et al., 2007). In response to shareholder pressures and the need for further market reforms, the China Securities Regulatory Commission (CSRC) has attempted to revive the monitoring role of the board through increased representation of independent directors on the board. On August 16, 2001, the CSRC issued *The Guidelines for Introducing Independent Directors* to the Board of Directors of Listed Companies, requiring that by June 30, 2002, each listed firm in China shall have at least two independent directors and that by June 30, 2003, at least one-third of the board should be comprised of independent directors.

2.4.2 Data Sources

The data on foreign market entries is collected from annual reports of Chinese publicly listed firms between 2004 and 2013. I choose 2004 as the starting year for three reasons: First, the quality of information in annual reports has substantially improved starting in the year 2001 (Wang & Qian, 2011); second, the outward FDI by Chinese firms gained pace after China's access to WTO at the end of 2001 (Buckley, Clegg, et al., 2007); and third, the Chinese government finalized the quotas regarding board composition by June 2003.

In order to identify foreign market entries I begin by identifying firms with foreign subsidiaries in 2010. For firms included in this sub-sample, I check their annual reports every year from 2004 to 2013 in order to find out when the subsidiary was established. I record the establishment year of the subsidiary as follows: if the annual report clearly specifies the year of establishment, then I use the reported year; if the year is not clearly specified, I use the year that the board approved the foreign investment; if the year of approval is not found, I assume that the subsidiary was established in the year that it first appeared in the annual report. Parent firm information is obtained from the China Stock Market and Accounting Research (CSMAR) database, which has been widely used in management and corporate finance literature (e.g., Duanmu, 2014; Fan et al., 2007; Liao et al., 2014; Wang & Qian, 2011).

This data collection method accurately identifies foreign subsidiaries of Chinese firms as long as it had at least one foreign subsidiary in 2010. Foreign subsidiaries that were terminated during the sample period are also identified and included in the final sample. The only exception is when a firm terminated all of its foreign subsidiaries prior to 2010, in which case the firm would not appear in my initial search in 2010. Such omissions are, however, not a major concern. The internationalization of Chinese publicly listed firms is a relatively recent

phenomenon with the total number of foreign investment increasing from 20 in 2004 to 129 in 2013 based on my final sample. It is reasonable to assume that the likelihood that the firm closes all of its foreign subsidiaries so soon after starting the process is low.

In order for a foreign market entry to be included in my raw sample, I require that the Chinese parent firm owns at least 20 percent of the equity in the subsidiary (Lu et al., 2014). I discard entries with missing firm or country-level countries. Moreover, I discard firms in the financial and utilities industries, because such firms have substantially different capital structures that make it difficult to obtain firm-level measures of performance and internationalization that are comparable with other firms. With these initial restrictions I have 1181 foreign market entries by 255 firms over the period 2004-2013.

In order to ensure that the choice set of foreign countries is as consistent and homogeneous as possible, I impose several additional sample restrictions. First, I exclude foreign investments in tax havens, as investments in these countries are likely to be driven by tax considerations (Meyer et al., 2014). This restriction reduces the total number of foreign entries to 1178. The reduction in foreign market entries is small because many tax havens are excluded from the initial sample as these countries have missing country-level variables. Second, I exclude Hong Kong and Macao, as they are officially part of China and may belong to the "domestic" choice set, rather than foreign one. This restriction reduces the sample to 844 foreign market entries. Finally, I exclude countries with less than two entries unless such countries can be combined together with another country (or countries) to obtain a group with more than three foreign market entries in total. The rationale is that countries with few foreign entries may not belong to the choice set of alternative locations (Duanmu, 2012). The grouping is based primarily on institutional and geographic similarity followed by cultural similarity (Ronen & Shenkar, 2013).

For example, New Zealand with two foreign entries is grouped together with Australia with 47 entries. The final sample consists of 831 foreign market entries in 47 different locations by 255 firms.

2.4.3 Dependent Variable

The dependent variable in the second chapter is $ENTRY_{i,j}$, which is a dummy variable that takes the value one when firm i enters country j during the 2004-2013 period, and zero otherwise. I specify the choice model in greater detail below.

2.4.4 Independent Variables

The key independent variables of interest are institutional quality, CEO duality, and board independence.

Institutional quality refers to the extent to which the institutions are well-established in the society. Thus, a good proxy for institutional quality should be based on the governance quality of the host country. Following previous research (Cuervo-Cazurra & Genc, 2008; Slangen & Beugelsdijk, 2010), I construct the index of institutional quality based on the World Governance Indicators (WGI) (Kaufmann, Kraay, & Mastruzzi, 2011). The WGI covers over two hundred countries and regions, and it is updated annually since 2002. WGI consists of six dimensions of governance quality: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control for corruption. The indicator for each dimension ranges from -2.5 to 2.5, with higher number indicating better governance. I use the average score of the six indicators as my measure for institutional quality.

CEO duality is measured with a dummy variable. It takes the value one if the CEO and chair positions are held simultaneously by the same person and zero otherwise (Chen & Hsu, 2009; Finkelstein & D'Aveni, 1994).

Board independence is measured by the proportion of independent directors to total board members (Conyon & He, 2011; Hillman & Dalziel, 2003). According to the CSRC, independent directors cannot be related to the listed firm or its subsidiaries, the top shareholders of the firm, or service providers of the listed firms (Liu, Miletkov, Wei, & Yang, 2015).

2.4.5 Control Variables

I also include several control variables. First, at the *firm level*, following prior literature in FDI location choice, I control for firm size, firm age, financial performance, organizational slack and ownership concentration (e.g., Duanmu, 2012; Enright, 2009; Lu et al., 2014). Firm size is measured by the log of total assets. Firm age is calculated as the difference between the year of foreign market entry and the founding year of the firm. Firm performance is measured by return on assets (ROA). Organizational slack is measured by the ratio of the difference between current asset and current liabilities to the total asset (Peng et al., 2009). This ratio reflects the current resources that the firm can allocate to alternate use, such as foreign investment. Ownership concentration is measured as the percentage of shares held by the ultimate owner (Conyon & He, 2011; Thomsen & Pedersen, 2000). The stakes that the ultimate owner has in the firm may affect the owner's discretionary power over strategic decisions of the firm, the owner's exposure to risk, and the firm's access to external resources. Therefore, ownership concentration captures the variation in ownership by the controlling shareholder.

Second, at the *country level*, following prior literature, I control for market size, market growth, natural resources, and high technology of the host country, as well as geographic

distance and cultural distance between China and the host country (e.g., Coeurderoy & Murray, 2008; Duanmu, 2014; García-Canal & Guillén, 2008b; Holburn & Zelner, 2010). Market size is captured by the log of the host economy's gross domestic product (GDP) in current U.S. dollars. Market growth is captured by the annual GDP growth rate. The endowment of natural resources for a country is proxied by the percentage of ores and metal exports to total merchandise exports (Duanmu, 2012). High technology of a country is proxied by the ratio of high-tech products to total merchandise exports by country. The data used in calculating the above mentioned variables comes from the World Development Indicators reported by the World Bank. Geographical distance is measured by the natural log of the distance in thousands of kilometers between the capital cities of the host country and China (available from: http://www.mapcrow.info). Following Kogut and Nath (1988), I calculate the cultural distance between China and the host country as the average, across Hofstede's four dimensions of culture (power distance, individualism, masculinity, and uncertainty avoidance), of the ratio of the squared difference between two countries' values for a given dimension to the population variance of this dimension.

All firm and country level variables are measured by the average value over the period that firm *i* has existed during the 2004-2013 sample period (since I have cross-sectional sample). In calculating the average values for firm-level variables, I discard any observations from the year of initial public offering (IPO), or the year following the IPO, to reduce the possibility of outliers. For instance, to become a publicly listed company in China companies must obtain the necessary approval from the government and meet certain performance thresholds leading up to the IPO year. The IPO events may therefore influence firm performance during the IPO year. In calculating the country-level variables for country-groups (when individual countries have fewer

than three foreign entries and are therefore grouped with another country), I calculate a weighted average across country-level variables in a group with the weights given by the number of investments in a given country.

Finally, I control for industry fixed effects to account for observable differences among firms from different industries in the overall propensity to enter foreign markets.

2.4.6 Determining State vs. Family Owned Sub-samples

In order to test my hypotheses, I need two distinct categories of firms, state and family owned firms. I use a binary classification with sub-samples to obtain a parsimonious model that is easy to interpret, instead of using a continuous variable for state ownership interacted with all of the key variables of interest. This is especially important in my case because my main hypotheses involve interaction effects, which are difficult to interpret in non-linear models. Moreover, to avoid endogeneity concerns associated with the omitted variable bias, I need to account for unobserved heterogeneity among state and family firms regarding their preferences for country characteristics (Ramasamy et al., 2012). A sub-sample approach allows us to estimate separate coefficients for the two types of firms, which (as the results will show) are often markedly different from each other. In addition, the sub-sample approach has been widely used to study the differences between state owned and non-state owned firms in terms of the impact of internal governance on organizational behaviors and performance (Jiang & Kim, 2015; Liao et al., 2014; Liu et al., 2015).

To determine whether a firm is state or family owned, I rely on the identity of the ultimate owner of the firm. In the CSMAR database, the ultimate owner of the firm is defined based on *the Measures for the Administration of the Takeover of Listed Companies* issued by the CSRC. The acquirer constitutes as the ultimate owner of the firm if (1) it holds the largest amount of

shares among all shareholders in the firm unless there is evidence to the contrary; (2) it can execute or control more voting rights than the shareholder with the largest amount of shares; (3) it holds and controls 30% or more of the firm's shares and voting rights unless there is evidence to the contrary; (4) it controls the appointment of over 50% board members through voting rights; (5) other conditions that is specified by the China Securities Regulatory Commission. In other words, the ultimate owner is the controlling shareholder of the firm. Following previous literature (Meyer et al., 2014; Chen et al., 2009), I consider a firm as state owned if its controlling shareholder is a government agency (e.g., the Ministry of Finance and the Bureau of State Asset Management) or another state owned enterprise (Liao et al., 2014), and as family owned if its ultimate owner is an individual or family member who controls the voting rights in the firm (Cheng et al., 2014; La Porta et al., 1999).

2.4.7 Empirical Methodology

My hypotheses concern the decision by firm *i* of whether or not to enter country *j* during the 2004-2013 period. This decision is a binary choice and can be represented as:

$$Entry_{i,j} = \begin{cases} 1 & \text{if } U_{i,j} > 0 \\ 0 & \text{otherwise} \end{cases} \tag{1}$$

where $U_{i,j}$ represents the utility (or profit in excess of total costs) of firm *i* from entering the foreign market *j*. I specify the latent utility function as:

$$U_{i,j} = \alpha + \beta X_i + \gamma Z_j + \varepsilon_{i,j} \tag{2}$$

where X_i is a vector of observable characteristics for firm *i*, Z_j is a vector of observable attributes for country *j* and $\varepsilon_{i,j}$ represents an error term with a logistic(0,1) distribution.

In the present analysis, each firm *i* appears 47 times (once for each location). Consequently, unobserved firm-level heterogeneity due to repeated choices by the same firm

may generate dependence in the foreign entry choices for a given firm *i*. To address unobserved firm heterogeneity in regards to the overall propensity to enter foreign countries, I include a random intercept for each firm *i*. Such models are typically referred to as random-effects logit models (e.g., Enright, 2009; Train, 2003). In order to properly evaluate the statistical significance and economic magnitude of interaction effects in non-linear choice models such as ours, I need to transform the coefficient estimates into marginal effects on the probability of foreign entry (Ai & Norton, 2003). The random-effects logit model is also useful in this regard because neglected heterogeneity may affect the marginal effects when they are estimated at specific values for the observed covariates (Ramalho & Ramalho, 2010), which is necessary for the interpretation of the interaction effects.

I will also take into account unobserved firm-level heterogeneity for country-level characteristics in a simple and parsimonious ways. Specifically, I estimate the choice model for foreign entry on sub-samples of family and state owned firms based on the prior evidence that state-owned firms and family controlled firms differ in their FDI location (e.g., Kang & Jiang, 2012; Ramasamy et al., 2012). The theoretical justification for the sub-sample split is provided above.

The specific choice model that I use is:

$$
\begin{aligned}
log\left(\frac{P_{i,j}}{1-P_{i,j}}\right) \\
&= a_1 + b_1 INSTITUTIONAL\ QUALITY_j \\
&+ b_2 INSTITUTIONAL\ QUALITY_j * CEO\ DUALITY_i \\
&+ b_3 INSTITUTIONAL\ QUALITY_j * BOARD\ INDEPENDENCE_i \\
&+ b_4 BOARD\ INDEPENDENCE_i + b_5 CEO\ DUALITY_i + b_6 CONTROL_{i,j} \\
&+ \sum_{k=1}^{8} b_k I\{IND_i = k\} + \tau_i \qquad (3)
\end{aligned}
$$

where $P_{i,j}$ is the probability that my dependent variable $Entry_{i,j} = 1$ conditional on the independent variables and estimated coefficients. τ_i is the random intercept for firm i, which is assumed to have a normal $(0, \sigma_\tau^2)$ distribution. $I\{IND_i = k\}$ includes a set of industry dummies (one for each industry).

2.5 RESULTS

2.5.1 Descriptive Statistics

Table 2-3 shows the distribution of the sample across locations and sectors. From 2004 to 2013, both state and family owned firms have witnessed a steady increase in foreign investment, except in 2009. In my full sample, 77.6 percent of the foreign market entries occurred in the manufacturing industry; in the subsamples, 77.0 percent for state owned firms and, 78.5 percent for the family owned firms. In the highly state regulated industries such as mining and transportation, state owned firms account for most of the foreign market entries. Not surprisingly, state-owned firms are more likely to enter countries with high natural resources (e.g. “Australia & New Zealand” and “Namibia & South Africa”) relative to family-owned firms.

Table 2- 3: Sample Characteristics

Panel A: sample distribution across locations

Country/group	Total	Family	State	Institutional Quality	Natural resources
United States	144	90	54	1.259	3.643
Singapore	65	27	38	1.497	1.239
Germany +Austria	57	22	35	1.458	2.964
Australia +New Zealand	47	9	38	1.615	27.816
Japan	41	21	20	1.205	2.449
Canada	33	9	24	1.607	7.864
Indonesia	31	13	18	-0.269	5.733
Netherlands	26	6	20	1.670	2.459
Brazil + Suriname	21	6	15	0.009	12.744
Malaysia	21	9	12	0.333	1.841
Vietnam	21	15	6	-0.532	0.772
India	20	7	13	-0.558	8.265
Italy	20	8	12	0.566	1.948
Kazakhstan +Russia	19	7	12	-0.708	6.988
Thailand	19	10	9	-0.235	1.342
United Kingdom + Ireland	19	4	15	1.408	3.580
France	18	6	12	1.225	2.398
Arabic countries	16	6	10	0.486	1.099
Namibia + South Africa	13	2	11	0.301	29.383
Luxembourg	12	5	7	1.704	5.590
South Korea	11	4	7	0.730	2.099
Nigeria + Ivory Coast + Cameroon	11	5	6	-1.143	1.710
Nordic countries	11	3	8	1.799	4.043
Switzerland	10	6	4	1.725	3.495
Czech +Slovakia +Slovenia	9	2	7	0.870	2.382
Poland	9	5	4	0.706	4.565
Spain & Portugal	9	3	6	0.909	3.130
Belgium	8	3	5	1.313	3.206
Ghana +Mali	7	7	0	-0.073	3.822
Philippines	7	4	3	-0.488	4.115
Southeast Europe	7	5	2	0.124	7.874
Peru + Argentina + Colombia +Bolivia	6	2	4	-0.406	27.181
Chile + Uruguay	5	1	4	1.012	36.415
Egypt +Malta	5	1	4	-0.473	7.395
Hungary + Croatia	5	1	4	0.793	1.677
Cambodia	5	1	4	-0.826	2.610
Mongolia	5	1	4	-0.157	66.428
Pakistan + Bangladesh	5	1	4	-1.008	0.821
Panama	5	0	5	0.084	4.219
Turkey	5	1	4	-0.058	3.445
Israel	4	3	1	0.569	1.339
Kenya + Uganda + Tanzania	4	3	1	-0.544	11.930
Kyrgyzstan + Tajikistan	4	2	2	-0.941	18.203
Mexico	4	2	2	-0.130	3.044
Jordan +Tunisia	3	1	2	-0.046	8.014
Saudi Arabia	2	0	2	-0.354	0.175
Venezuela	2	0	2	-1.195	1.658
	831	349	482	0.358	7.768

Panel B: Sample Distribution Across Industry Sectors

IND	Industry	TOTAL	STATE	FAMILY
A	Agriculture, forestry, livestock farming, fishery	5	5	0
B	Mining	39	6	33
C	Manufacturing	645	273	372
E	Construction	18	10	8
F	Wholesale and retail	27	8	19
G	Transportation	23	2	21
H	Hotel and catering industry	2	0	2
I	IT	41	26	15
L	Leasing and commerce service	17	12	5
M	Scientific research and technology service	1	1	0
S	Comprehensive	13	5	8
	Overall	831	348	483

Table 2-4 shows the comparison between the state- and family-owned firms in terms of several key firm characteristics. For state owned firms, 11 percent of the firms have CEO duality; for family firms, 26 percent of the firms have CEO duality. The differences in the mean and the median between state and family owned firms are statistically significant. The average board independence is slightly higher for family owned firms (0.37) relative to state-owned firms (0.33). In my sample, state owned firms also tend to be bigger, but less profitable than family owned firms. In addition, both state and family owned firms are highly concentrated with a mean ownership concentration of 41.79 percent for state owned firms, and 34.43 percent for family owned firms. The same patterns generally also hold when for median differences.

Table 2- 4: Contrast between State Owned and Family Owned Firms

Firm variables	Mean		Difference	Median		Difference
	Family	State	t-statistic	Family	State	t-statistic
CEO duality	0.26	0.11	8.38	0.00	0.00	8.56
Board independence	0.37	0.36	0.89	0.33	0.33	-1.09
Firm size	7.91	8.83	-16.71	7.77	8.61	-10.34
ROA	5.54	4.46	4.17	5.30	3.82	6.56
Ownership concentration	34.43	41.79	-10.98	30.74	43.11	-10.81

The Wilcoxon Signed Ranks test is used under the null of equality in medians.Table 2-5 presents descriptive statistics and a correlation matrix. Foreign market entry is my dependent variable, with a mean of 0.07, implying that there is roughly a 7 percent likelihood of a firm to enter one of the 47 locations in my sample. Institutional quality, my key independent variable, is generally *not* highly correlated with the other country-level variables. The highest correlations are with GDP growth (-0.65) and cultural distance (0.64). I also report variance inflation factors (VIFs) for each independent variable. The average VIF is only 1.6 indicating that multicollinearity is not a concern in this study.

Table 2- 5: Descriptive Statistics and Correlations

Variables	Mean	S.D.	VIF	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Entry	0.07	0.25		1.00														
Ownership concentration	38.84	14.13	1.21	0.01	1.00													
Firm size	8.43	1.35	1.46	0.10*	0.34*	1.00												
ROA	5.00	3.84	1.20	0.02*	0.01	-0.06*	1.00											
Current Ratio	18.89	21.30	1.53	-0.01	-0.11*	-0.42*	0.39*	1.00										
AGE	11.98	3.96	1.15	0.00	-0.25*	-0.06*	-0.10*	-0.14*	1.00									
Log(GDP)	25.69	1.19	1.55	0.07*	0.00	0.00	0.00	0.03*	-0.03*	1.00								
GDP growth	3.91	2.46	2.52	-0.08*	0.00	-0.02*	-0.01	-0.02	0.06*	-0.48*	1.00							
Log(distance)	8.80	0.64	1.24	0.00	0.00	0.00	0.00	0.00	0.00	0.11*	-0.24*	1.00						
Natural resources	7.76	11.82	1.48	-0.03*	0.00	0.00	0.00	0.01	-0.01	-0.43*	0.29*	-0.04*	1.00					
High technology	13.78	12.70	1.47	0.11*	0.00	0.00	0.00	-0.01	0.01	0.22*	-0.16*	-0.30*	-0.21*	1.00				
Cultural dist.	2.23	1.29	2.43	0.05*	0.00	0.00	0.00	0.00	0.00	0.20*	-0.60*	0.13*	0.12*	-0.02	1.00			
CEO duality	0.20	0.40	1.12	0.00	-0.08*	-0.22*	0.09*	0.28*	-0.09*	0.02*	-0.02*	0.00	0.01	0.00	0.00	1.00		
Board independence	0.37	0.05	1.13	0.00	0.19*	0.23*	-0.01	0.01	-0.22*	0.02*	-0.02*	0.00	0.01	0.00	0.00	0.07*	1.00	
Institutional quality	0.36	0.88	2.63	0.14*	0.00	0.00	0.00	0.00	0.00	0.39*	-0.64*	0.14*	-0.06*	0.31*	0.66*	0.00	0.00	1.00

VIF stands for the variance inflation factor. * $p<0.05$

2.5.2 Statistical Interpretation

Following standard practice, I begin by reporting the estimated coefficients and their associated standard errors. However, as in all non-linear models, the coefficients in logit-type models do not directly correspond to marginal effects. This makes direct interpretation of the results much more difficult. This difficulty is compounded by the fact that my hypotheses concern the sign and significance of the interaction effects between institutional quality and the moderator variables, while the interaction term (*INSTITUTIONAL QUALITY * MODERATOR*) in a non-linear model does not represent a cross-partial derivative, as it does in a linear regression model (Ai and Norton, 2003). Therefore, the estimated coefficient for the interaction term and their associated standard errors do not convey any direct information about the magnitude, or the statistical significance of the interaction effects of interest.

To address these issues, I follow Ai and Norton (2003) (among others) and calculate the appropriate marginal effects. Specifically, I evaluate the sign and statistical significance of the moderator variable's marginal effect on the relationship between institutional quality and foreign market entry probability. The marginal effect of a change in both interacted variables (institutional quality and the moderator) is equal to the cross-partial derivative of the probability of foreign market entry with respect to institutional quality, and then with respect to the moderator variable (sees Eq. (5) in Wiersema and Bowen, 2009).

In the next section, I briefly discuss the sign and significance of the control variables, and the validity of the sub-sample approach (family vs. state). The statistical tests for the hypothesized interaction effects are discussed in the following section.

2.5.3 Estimation Results – Baseline

Table 2-6 provides the results for the random-effects logit model (3) estimated separately for state- and family-owned firms. I report results for four different specifications: 1) main effects for institutional quality, 2) interaction terms for CEO duality, 3) interaction terms for board independence, and 4) both main and interaction terms included jointly.

For the country-level variables I can see that state- and family-controlled firms have significant differences in terms of their preferences for several country-level variables. Family-controlled firms are less likely to enter host countries with a large market size and high reserves of natural resources, while state-owned firms are more likely to enter such host countries. Moreover, state-owned firms are less likely to enter culturally distant countries, while the variable is insignificant for family controlled firms. The only country-level variable that both types have similar preferences over is high technological assets. These results highlight how different the two types of firms are in terms of their preferences for country-level attributes, which provides further justification for my sub-sample split. More importantly, the sub-sample approach solves the endogeneity problem that would otherwise arise as a result of the omitted variable problem.

At the firm level, firm size is significantly and positively related to the probability of foreign market entry for both types of firms, as bigger firms have more resources and incentives to go abroad. Ownership concentration is not significant for either family- or state-controlled firms, indicating that the proportion of shares by the controlling shareholder does not influence the firm's likelihood of entering foreign markets. Firm performance is insignificant for both family- and state-controlled firms, which means that for Chinese firms, even firms with poor performance are equally likely to invest abroad. Organizational slack, as measured by the current

Table 2- 6: Random Effects Binary Logit Model

	Family firms				State owned firms			
Variables	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Institutional quality	0.611***	0.471***	-1.456**	-1.256*	0.755***	0.793***	1.368***	1.484***
	(0.105)	(0.112)	(0.652)	(0.655)	(0.099)	(0.101)	(0.474)	(0.481)
CEO duality		-0.706***		-0.691***		0.574*		0.512
		(0.252)		(0.259)		(0.343)		(0.342)
Institutional quality* CEO duality		0.557***		0.475***		-0.319*		-0.343*
		(0.173)		(0.176)		(0.187)		(0.188)
Board independence			-3.697	-2.338			-3.886	-3.481
			(2.514)	(2.557)			(2.385)	(2.395)
Institutional quality*Board independence			5.648***	4.776***			-1.645	-1.846
			(1.769)	(1.794)			(1.244)	(1.254)
Ownership concentration	0.006	0.005	0.006	0.005	-0.009	-0.007	-0.008	-0.007
	(0.006)	(0.006)	(0.006)	(0.006)	(0.007)	(0.007)	(0.007)	(0.007)
Firm size	0.574***	0.575***	0.582***	0.587***	0.315***	0.321***	0.383***	0.384***
	(0.108)	(0.107)	(0.109)	(0.108)	(0.074)	(0.074)	(0.079)	(0.078)
ROA	0.014	0.011	0.014	0.010	0.004	-0.001	0.001	-0.003
	(0.023)	(0.023)	(0.023)	(0.023)	(0.027)	(0.027)	(0.027)	(0.027)
Current Ratio	0.001	0.002	0.001	0.003	0.011*	0.012*	0.013**	0.013**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.006)	(0.006)	(0.006)	(0.006)
Age	-0.014	-0.015	-0.012	-0.012	-0.005	-0.000	-0.010	-0.006
	(0.022)	(0.022)	(0.022)	(0.022)	(0.027)	(0.027)	(0.027)	(0.027)
Log(GDP)	-0.123*	-0.120*	-0.123*	-0.120*	0.278***	0.278***	0.279***	0.278***
	(0.072)	(0.072)	(0.072)	(0.072)	(0.067)	(0.067)	(0.067)	(0.067)
GDP growth	-0.033	-0.034	-0.031	-0.032	0.005	0.004	0.007	0.006
	(0.038)	(0.038)	(0.038)	(0.039)	(0.039)	(0.039)	(0.039)	(0.039)
log(DISTANCE)	0.099	0.100	0.099	0.101	0.060	0.060	0.060	0.061
	(0.116)	(0.116)	(0.116)	(0.116)	(0.097)	(0.097)	(0.097)	(0.097)
Nature resources	-0.026***	-0.026***	-0.027***	-0.027***	0.017***	0.017***	0.017***	0.017***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.006)	(0.006)	(0.006)	(0.006)
High technology	0.023***	0.024***	0.023***	0.024***	0.013***	0.014***	0.013***	0.014***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Cult. Distance	-0.079	-0.076	-0.077	-0.075	-0.189***	-0.190***	-0.188***	-0.190***
	(0.069)	(0.069)	(0.069)	(0.069)	(0.066)	(0.066)	(0.066)	(0.066)
Fixed effects								
Industry	YES	YES	YES	YES	YES	YES	YES	YES
log-Likelihood	-	-	-	-	-	-	-	-
	1,175.034	1,168.766	1,169.470	1,164.647	1,574.437	1,571.364	1,571.589	1,568.652
Chi-squared	172.60	177.19	178.58	182.32	231.69	235.74	237.02	240.89
N	5,885	5,885	5,885	5,885	6,797	6,797	6,797	6,797

Standard errors are in parenthesis. * $p<0.1$; ** $p<0.05$; *** $p<0.01$

ratio, is positive and significant only for state-controlled firms, which means that state-controlled firms are more likely to invest spare resources in foreign market entry. Firm age is insignificant

in all specifications. The proportion of independent directors on board are not significant for family and state owned firms, but the effects are both negative. For family controlled firms, CEO duality decreased the probability of foreign market entry; in state controlled firms, CEO duality increases the probability of foreign market entry.

Hypothesis 1 suggests that institutional quality has a positive and significant impact on the probability of foreign market entry both for state- and family-owned firms. The results in Table 2-6 provide preliminary evidence that the coefficient on institutional quality is positive and significant at the 1 percent level for both state and family owned firms. In order to properly evaluate the statistical significance and economic magnitude of institutional quality, I evaluate the marginal effect of a 1 Std. Dev. increase in institutional quality (corresponding roughly to the difference between Vietnam and the United States) on the foreign market entry probability (see Table 2-7: Panel A). First, I estimate the Marginal Effect estimated at the mean values of the independent variables (aka the Marginal Effects at Means, or MEM). These impacts imply a 2.0 (3.2) percent increase in entry probability for family (state) firms, which are economically important when compared against the average probability of foreign entry, which is 5.9 and 6.8 percent for family and state-owned firms respectively. These effects are also statistically significant at the 1 percent level or better, which provides direct confirmation for Hypothesis 1.

A potential drawback with the MEM is that it conceals a considerable degree of variation. Since the marginal effect in logit-type models depends on all model variables through the foreign market entry probability ($\frac{\partial P_{i,j}}{\partial IQAL_j} = b_1 P_{i,j}(1 - P_{i,j})$), I can also summarize the entire distribution of marginal effects estimated at the observed values of the independent variables. Specifically, I report the average, median, 5th and 95th percentile of the distribution for the marginal effect. The average marginal effect at observed values is considerably larger than the MEM impacts (0.020

vs 0.026 for family firms and 0.032 vs. 0.036 for state owned firms), while the median values are almost identical to the MEM impacts, implying that the distribution is positively skewed. The marginal effects range from 0.005 to 0.067 for family-controlled firms at the 5th and 95th percentiles, and from 0.006 to 0.093 for state-controlled firms.

Table 2- 7: Evaluating the Significance of the Direct and Interaction Effects

PANEL A: Direct effect, i.e. the marginal effect $\frac{\partial P_{i,j}}{\partial X}$

Sample	Marginal Effect at Means (MEM)	[z-statistic] for MEM	Marginal Effect using variables at observed values: Mean	Median	P05	P95
Family	0.020***	[5.48]	0.026	0.020	0.005	0.067
State	0.032***	[6.49]	0.036	0.029	0.006	0.093

PANEL B: True interaction effect, i.e. the marginal effect $\frac{\partial P_{i,j}}{\partial X\, \partial Z}$

Sample	Moderator variable (Z)	Marginal Effect at Means (MEM)	[z-statistic] for MEM	Marginal Effect using variables at observed values: Mean	Median	P05	P95
Family	CEO duality	0.019***	[3.11]	0.024	0.019	0.003	0.065
State		-0.018**	[2.19]	-0.020	-0.016	-0.050	-0.004
Family	Independent board	0.148***	[2.68]	0.256	0.139	-0.002	0.912
State		-0.143**	[2.16]	-0.159	-0.126	-0.413	-0.024

Note: MEM is calculated at the sample means of the independent variables.

2.5.4 Estimation Results – Evaluating the Interaction Effects

The first step in evaluating the hypothesized interaction effects is to examine whether the signs of the estimated interaction terms are correct. As I already discussed earlier, the significance of the interaction term is, by itself, not meaningful because the true interaction effect depends non-linearly on the estimated coefficient for the interaction term as well as the main effect for the moderator variable (sees Eq. (5) in Wiersema and Bowen, 2009).

Table 2-6 show the coefficient estimates for the interaction terms *INSTITUTIONAL QUALITY * BOARD INDEPENDENCE* (Column 3 and 7) and *INSTITUTIONAL QUALITY * CEO DUALTY* (column 2 and 6). The interaction terms are both positive for family-controlled firms, and negative for state-controlled firms. These results provides preliminary support for

Hypotheses 2 and 3, which suggest that family- (state) owned firms with high board independence are more likely to enter countries with high (low) institutional quality; as well as support for Hypotheses 4 and 5, which suggest that family- (state) owned firms with CEO duality are more likely to enter countries with high (low) institutional quality. In column 4 and 8 of Table 2-6, I add all variables simultaneously, and the results are largely unchanged from before.

Next, I evaluate the statistical significance of the interaction effects. Specifically, I evaluate the sign and statistical significance of the moderator variable's marginal effect on the relationship between institutional quality and probability of market entry. The marginal effect of a change in both interacted variables (institutional quality and the moderator) is equal to the cross-partial derivative of the probability of foreign market entry with respect to institutional quality, and then with respect to the moderator variable (see Eq. (5) in Wiersema and Bowen, 2009). As in the previous section, I use the marginal effect at means (MEM) in evaluating the overall significance. I also report the marginal effects at observed values of the independent variables (see Table 2-7, panel B). This is particularly important for the interaction between institutional quality and board independence because both variables are continuous, in which case the true interaction effect can theoretically switch signs for different observations.

The true interaction effects *INSTITUTIONAL QUALITY*CEO DUALITY* and *INSTITUTIONAL QUALITY*BOARD INDEPENDENCE* (based on the estimates in columns 2, 3, 6 and 7 in Table 2-6) are positive and highly significant for family-owned firms, and negative and significant for state-owned firms. This evidence provides direct confirmation of Hypotheses 2 to 5. Moreover, the interaction *INSTITUTIONAL QUALITY*BOARD INDEPENDENCE* is positive (negative) for about 95 percent of the observations for family- (state-owned) firms. For the handful of observations where the interaction effect switches signs, the effects are never

statistically significant. It is also interesting that for state-owned firms the true interaction effect between institutional quality and board independence is highly significant despite the fact that the coefficient estimate on the interaction term is insignificantly different from zero (see Table 2-6). This is possible because in non-linear models where both interacted variables are continuous (as in the case of institutional quality and board independence), the true interaction effect is determined by the product of the coefficient for the moderator variable and interaction term (b_1*b_4 see Eq. (3)) (Wiersema & Bowen, 2009). In my case the coefficient for the moderator variable (*BOARD INDEPENDENCE*, b_1) and the interaction term (*INSTITUTIONAL QUALITY*BOARD INDEPENDENCE*, b_4) are both negative, which explains why the product of the two is negative and why true interaction effect remains significant. This example also highlights the importance of analyzing the appropriate marginal effects, rather the coefficient estimates.

In order to better evaluate the economic magnitude of the true interaction effects, I report the marginal effect of institutional quality evaluated at specific values of the moderator variables (see Table 2-8). Specifically, I compute the marginal effect of a 1 Std. Dev. increase in institutional quality (corresponding roughly to the difference between Vietnam and the United States) on the foreign market entry probability for values of CEO duality at 0 (= chairman and CEO have separate roles) and 1 (= same roles). These impacts, estimated at the sample means of the independent variables, are 1.8 and 2.8 percent for family firms and 3.1 and 2.1 for state owned firms. The impacts are even greater if I evaluate the marginal effects at the average value of the observed values. In this case, the impact of institutional quality on foreign market entry is almost twice as large for family-owned firms where the CEO is the chairman of the board, but only half as small for state owned firms with CEO duality.

Similarly, for the interaction effect between institutional quality and board independence, I compute the marginal effect of a 1 Std. Dev. increase in institutional quality for values of board independence at low, medium and high values (33, 37 and 42 percent). The low and high values correspond to minus and plus one Std. Dev. from the mean, and the medium value corresponds to the mean value of board independence. These impacts, estimated at the sample means of the independent variables, are 1.5, 2.2 and 2.8 percent for family firms and 4.0, 3.1 and 2.4 percent for state owned firms. The results in this section are consistent with the hypothesized interaction effects. Specifically, the impact of institutional quality on the probability of foreign market entry is considerably stronger for higher levels of board independence and for CEO duality among family-owned firms, while the opposite relationship holds for state-owned firms.

Table 2- 8: Economic Magnitude of the Moderator Variable Z on the Marginal Effect of Institutional Quality on the Probability of Foreign Market Entry

Sample	Value of Z	Marginal Effect at Means (MEM)	[z-statistic] for MEM	Marginal Effect using variables at observed values			
				Mean	Median	P05	P95
PANEL A: Z = CEO duality [Low = 0; High = 1]							
Family	Low	0.018***	[4.32]	0.023	0.019	0.006	0.057
	High	0.028***	[5.13]	0.041	0.027	0.005	0.119
State	Low	0.031***	[6.02]	0.039	0.032	0.007	0.094
	High	0.023*	[1.74]	0.026	0.023	0.009	0.049
PANEL B: Z = Board independence [Low = mean - 1 SD; Med = mean; High = mean + 1 SD]							
Family	Low	0.015***	[3.28]	0.018	0.015	0.005	0.044
	Med	0.022***	[5.99]	0.030	0.022	0.006	0.078
	High	0.028***	[6.36]	0.041	0.028	0.005	0.121
State	Low	0.040***	[5.24]	0.050	0.041	0.010	0.112
	Med	0.031***	[5.97]	0.039	0.032	0.008	0.090
	High	0.024***	[4.54]	0.030	0.024	0.006	0.071

* $p<0.1$; ** $p<0.05$; *** $p<0.01$

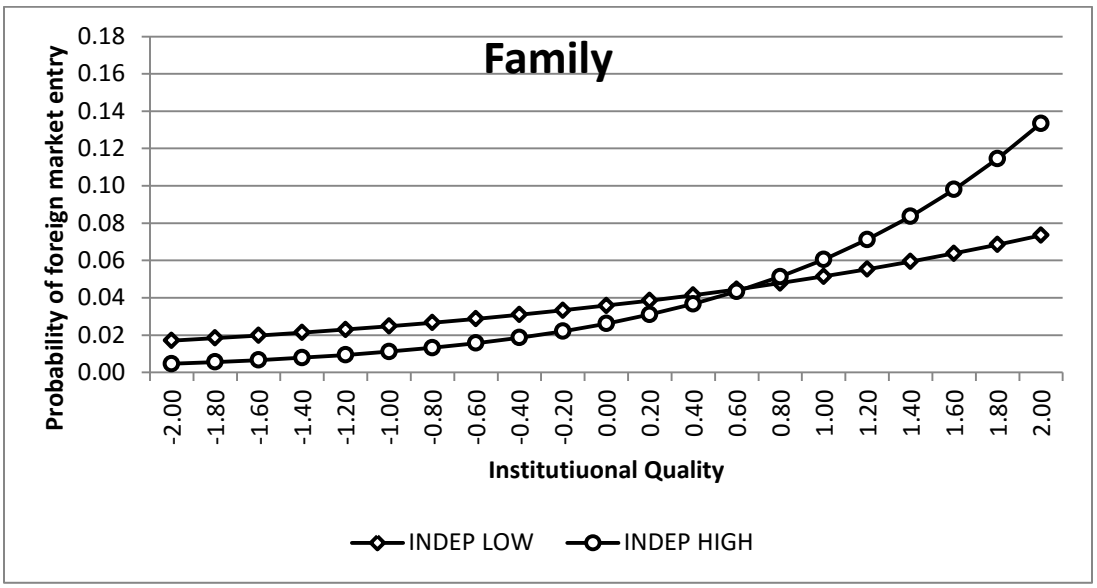
[a] MEM is computed at the sample mean values for the independent variables.

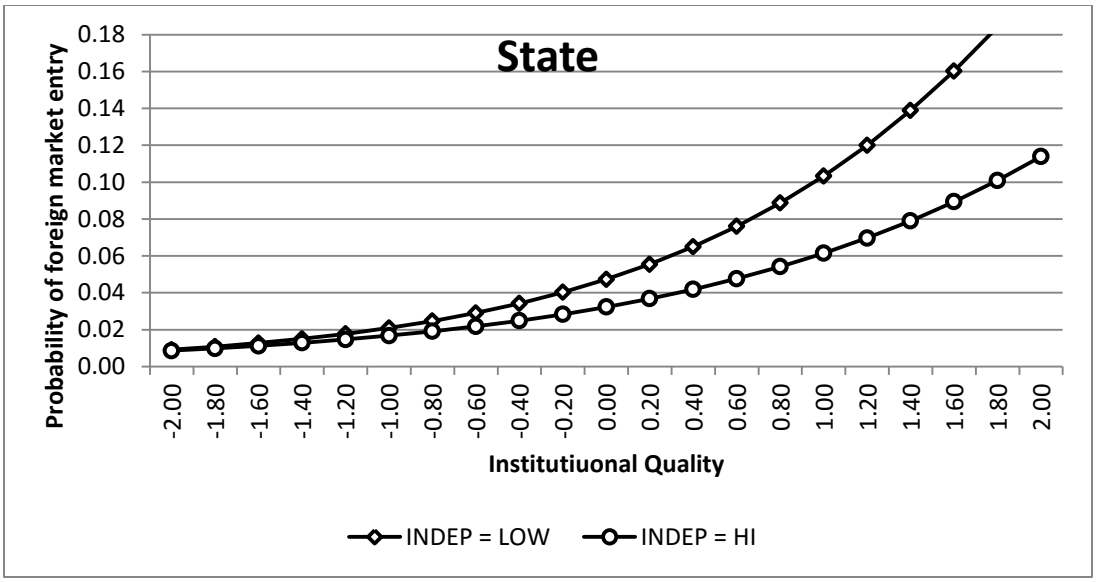
I also highlight the marginal effects in graphical format. Figure 2-2 shows the probability of foreign market entry (Y-axis) for different values of institutional quality when all other independent variables are held fixed at their sample means.

Figure 2-2A shows the interaction effect between institutional quality and ratio of independent directors on board for family- and state-controlled firms. In family-controlled firms, the slope of the curve representing a higher ratio of independent directors on board (plus one standard deviation) increases much faster than the curve representing a lower ratio of independent directors (minus one standard deviation), indicating that board independence enhances the positive impact of institutional quality on the probability of market entry. In state-controlled firms, the curve representing a higher ratio of board independence is much flatter, indicating that higher representation of independent directors reduces the positive impact of institutional quality and the probability of market entry.

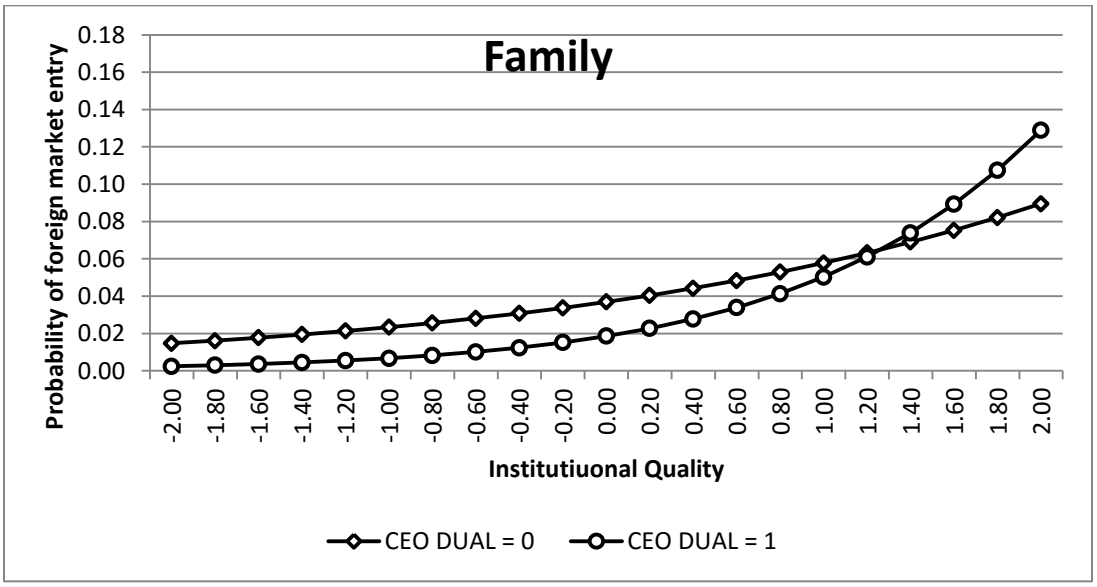
Figure 2- 2: Interactions of Institutional Quality, Board Structure, and Firm Ownership on the Probability of Foreign Market Entry

A. Representation of independent directors on board





B. CEO duality



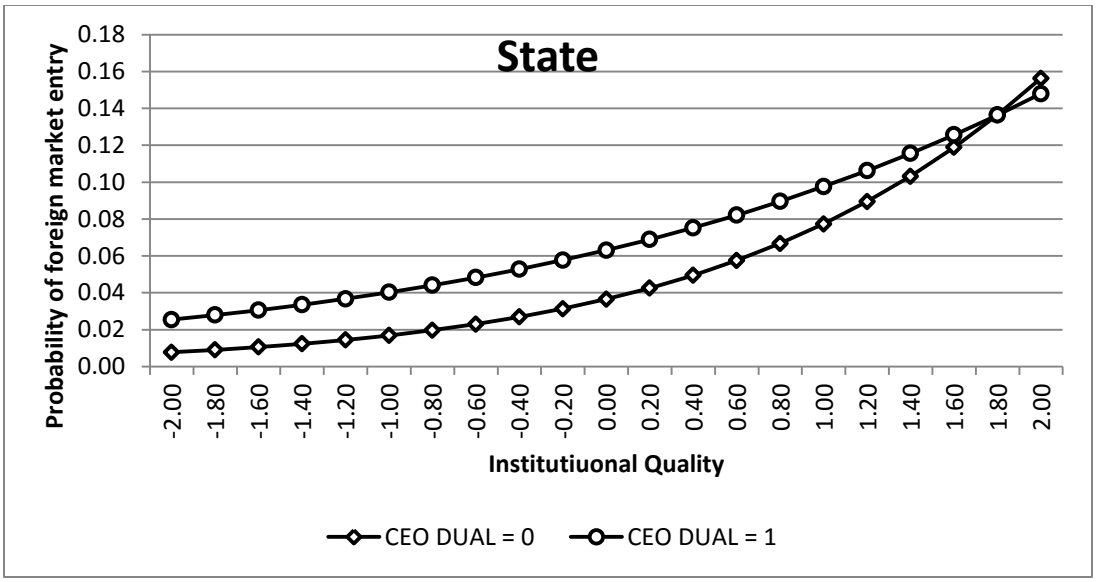


Figure 2-2B shows the interaction effect between institutional quality and CEO duality for family- and state-controlled firms. For both family- and-state controlled firms, institutional quality increases the firm's probability of market entry. In family-controlled firms, the curve representing a CEO duality of 0 is much flatter than the curve representing a CEO duality of 1, indicating that CEO duality enhances the positive impact of institutional quality on the probability of foreign market entry. In contrast, for state-owned firms, the slope for the curve representing a CEO duality of 0 grows much faster when institutional quality increases, indicating that CEO duality reduces the positive impact of institutional quality on the probability of foreign market entry. However, at each level of institutional quality, firms with CEO duality have a higher likelihood of foreign market entry unless the institutional quality of the host country is very high.

2.5.5 Robustness Tests

A potential concern with my estimation methodology is that it relies on a cross-section of firms, where the independent variables are calculated based on average values over the 2004-

2013 period. Another possibility is to use sub-samples. The potential disadvantage of increasing the number of observations in the choice set is that the rare events problem described in King and Zeng (2001) becomes a more serious concern. The rare events problem leads to downward biased coefficient estimates and inflated standard errors. The latter reduces the power of evaluating the significance of the true marginal effects, which depend non-linearly on all estimated coefficients in the model (Ai & Norton, 2003). In order to obtain a reasonable balance between short sample periods and high entry probabilities, I calculate the independent variables based on average values over two sub-periods (2004-2008 and 2009-2013). In this case the decrease in the foreign market entry probability is not too severe; the entry probability is 6.85 % in the cross-sectional sample, and 3.97 % in the pooled sample with two cross-sections.

I re-estimate the random-effects logit model (Eq. (5)) on the pooled cross-sectional sample. In order to account for the higher incidence of foreign market entries during the latter time-period (2009-2013), I include a dummy variable that takes the value one for this time-period. The results are omitted for brevity, but they are available from the authors. As before, the interaction terms *INSTITUTIONAL QUALITY*BOARD INDEPENDENCE* and *INSTITUTIONAL QUALITY*CEO DUALITY* remain positive for family owned firms, and negative for state-owned firms. Similarly, the true interaction effects remain highly significant and positive for family owned firms. For state-owned firms the true interaction effects remain negative, but only the interaction term with board independence is significant. The insignificance of CEO duality for state-owned firms is not that surprising, given that the differences in risk-preferences between the politically appointed CEO (representing the risk-neutral state) and the independent directors (representing both the risk-neutral state and the moderately risk-averse minority shareholders)

are not that large. Otherwise the economic magnitude of the effects is largely unchanged from before.

To further ensure the robustness of my results, I also redo all of the tests with a different measure for institutional quality. This alternate measure, *EFI*, is based on two components from the economic freedom index constructed by the Heritage Foundation: rule of law and control for corruption (Meyer et al., 2014). All of the results are largely unchanged with this measure of institutional quality, and are therefore omitted for conciseness.

2.6 DISCUSSION AND CONCLUSION

In this chapter, I adopt an agency perspective to study how conflicts of interest between shareholders and managers among emerging economy MNEs affect the firms' FDI location choice. My findings support the notion that the governance structure of the firm plays an important role in influencing the FDI location choice, extending previous arguments (Ellstrand et al., 2002; Ramasamy et al., 2012). Supporting my hypotheses, I find that family-owned firms with boards composed of a higher proportion of independent directors and characterized by CEO duality are more likely to invest in countries with good institutional quality. In contrast, state-owned firms with such board characteristics are more likely to enter countries with poor institutional quality.

I make two noteworthy contributions. First, I add to the literature on the governance structure of the firm and its internationalization (Bhaumik et al., 2009; Datta et al., 2009; Filatotchev et al., 2007) by being one of the first to analyze how the ownership of the firm interacts with the internal governance mechanisms to determine FDI location choice. As I mentioned before, some studies have discussed how the board of directors affects FDI (Datta et al., 2009; Ellstrand et al., 2002); while others have analyzed differences between family- and

state-owned firms in FDI location (Filatotchev et al., 2007; Ramasamy et al., 2012). The first stream of research focuses on the traditional agency issue in the advanced economy context, where the major conflict is between shareholders and managers. The second stream of research focuses on the objectives and risk preferences of the controlling shareholder. However, the identity of the controlling shareholder (family vs. state) affects the nature and severity of the agency conflicts in emerging economy firms. Therefore, the impact of the internal control mechanism, such as board independence and the separation of CEO and chair positions, have different influences on FDI location choice between family- and state-owned firms.

Second, I contribute to agency theory by integrating two approaches: the first highlights the problems that arise from conflicts of interest between managers and shareholders and the various mechanisms designed to mitigate these conflicts (Fama & Jensen, 1983; Jensen & Meckling, 1976), while the second focuses on the differences in objectives and agency problems among firms with different dominant shareholders (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014; Young et al., 2008). I explain how these two agency relationships interact with each other in the context of emerging market firms. Differing from the Anglo-Saxon context where the arguments for agency theory were initially developed, emerging economies are characterized by underdeveloped institutional environment and concentrated ownership, which results in novel agency problems (Dharwadkar et al., 2000; Young et al., 2008). In addition, some assumptions embedded in the agency theory do not hold across contexts; differences in objectives and risk preferences of shareholders and managers in emerging markets lead to the modification of some of the traditional agency arguments.

My second chapter adds to the literature on the internationalization of emerging economy firms. In the current literature, there are seemingly contradictory findings on whether emerging

economy firms are more or less likely to invest in countries with worse institutional quality (Buckley, Clegg, et al., 2007; Li et al., 2012). I suggest that the contradictory predictions actually indicate that the positive relationship between institutional quality of host country and the probability of foreign market entry is moderated by firm's risk preferences, political capabilities, strategic motives and government affiliations (Buckley, Devinney, & Louviere, 2007; Cuervo-Cazurra & Genc, 2008; Holburn & Zelner, 2010; Li, Li, & Shapiro, 2012; Meyer, Ding, Li, & Zhang, 2014). I extend this stream of literature by focusing on the moderating role of corporate governance on the firm's selection of host countries.

2.6.1 Limitations and Future Research Opportunities

There are a number of areas that future research could explore further. First, my findings are generalizable to other emerging economies, although not all of them. Numerous studies have found that China and other emerging economies share similar features in terms of corporate governance such as underdeveloped institutional environments, concentrated ownership, ultimate owner, and relationship based governance mechanisms (Claessens et al., 2000; Dharwadkar et al., 2000; Luo & Tung, 2007; Young et al., 2008), and that governance reforms such as minimum requirement on independent directors achieve similar effects among emerging economies (Black & Kim, 2012; Black & Khanna, 2007; Liu et al., 2015). Nevertheless, there are variations among emerging economies (Ramamurti, 2012). Future studies could test the relationship between governance structures and internationalization strategies in other emerging economy countries, and compare the differences and similarities due to variations of institutional environment among emerging economies.

Second, the firms in my sample have relatively few foreign market entries. Because of the limited number of entries over the sample period and the relative static nature of the

governance variables, I cannot test my hypotheses with panel data. Therefore, my analysis mainly captures the impact of the cross-sectional differences in governance among firms on foreign market entry, but it cannot explain the influences of changes in ownership structure or board composition within the firm on foreign market entry. In addition, my findings may be limited to firms with relatively low international experience, as the accumulation of international experience may affect the directors and the executives' perspective of risk in foreign market entry.

Third, in this chapter, I have discussed the goals and risk preferences of key corporate governance actors (i.e., top managers, board of directors, family/state controlling shareholders and minority shareholders) in emerging economies, but I have limited information about the characteristics and behaviors of board members and top executives such as their political connections, functional background, international experience, and dissent behavior. Future research might examine how these characteristics of the board and top management affect firms' risk preference and objectives in overseas expansion.

The implication of this study for policy makers is that corporate governance practices from advanced economies do not necessarily work in the same way in emerging economies, as the effectiveness of the practices is contingent upon the complex institutional environment under which they are embedded (Aguilera & Jackson, 2003; Young et al., 2008). In addition, the impact of these practices on firm strategies also differs depending on the type of the firm, as the goals and risk preferences of the owners and shareholders are different for state- and family-owned firms (Thomsen & Pedersen, 2000). Therefore, before adopting any systems or practices, policy makers should pay more attention to the institutional configurations that enable the corporate governance systems.

CHAPTER THREE: TOP MANAGEMENT TEAM'S POLITICAL CONNECTIONS, CORPORATE GOVERNANCE AND INTERNATIONALIZATION

3.1 INTRODUCTION

Scholars in finance and management have examined the impact of political connections on the firm's performance and its strategies based on a variety of theoretical frameworks, including the resource dependence theory, the institutional theory, the network theory, the government intervention perspective, and the upper echelon perspective (Chin, Hambrick, & Trevino, 2013; Faccio, 2006; Fan, Wong, & Zhang, 2007; Li & Liang, 2014; Meyer, Ding, Li, & Zhang, 2014; Zheng, Singh, & Mitchell, 2015). However, in the field of international business (IB), the impact of political connections on the firm's internationalization strategies is relatively underexplored with a few exceptions (Liang, Ren, & Sun, 2014; Pan, Teng, Supapol, Lu, Huang,

& Wang, 2014). In this chapter, I seek to examine the relationship between top managers' political connections and the firm's degree of internationalization in emerging economies.

Generally, the literature suggests that political connections affect organizational outcomes by providing resources in various forms (e.g., bank loans, relaxed regulatory oversight, privileged access to information, and political expertise), or by exposing the firm to government intervention (e.g., imposing government policies and political goals) (Faccio, 2006; Fan et al., 2007; Pan et al., 2014; Shi, Markoczy, & Stan, 2014). These studies' focus on the economic or social costs and benefits of political connections neglects the influence of political connections on the top manager's personal values. Top managers' personal values refer to "a broad tendency to prefer certain states of affairs over others" (Hofstede, 1980: 19). Drawing from the upper echelons perspective, I propose that top managers build political connections through current or past experience of holding positions in the government, and this personal political engagement should directly reflect the manager's personal values (Chin et al., 2013; Hambrick & Mason, 1984; Li & Liang, 2014). Top managers' personal values can enter into the firm's strategic choices through direct channels, in which the executives select choices that are more closely aligned with their values; or indirect channels, in which the values guide the executives in information gathering, filtering and interpretation (Chin et al., 2013; Hambrick & Mason, 1984).

I differentiate between two types of political connections by the top manager: i) executive connections established by working in the executive branch of the government and ii) legislative connections established by holding a representational appointment in the legislative branch of the government. These political activities reflect different personal values. I argue that top managers' executive connections in privately-owned firms indicate that these managers are more receptive to changes and willing to take on more risks, whereas top manager's executive connections in

state-owned firms indicate that they emphasize stability and authority (Ralston, Terpstra-Tong, Terpstra, Wang, & Egri, 2006). In contrast, top managers' legislative connections reflect the manager's pro-social value (Li & Liang, 2014) or consciousness of honor (Xia, 2008), that is, the motive to serve and benefit the larger society.

Integrating the personal value view with the resource and state control views of top managers' political connections, I propose that these two types of top managers' political connections can influence the firm's degree of internationalization by bringing different levels of resources to the firm, exposing the firm to different levels of state control and injecting different personal values of the top managers into the firm's strategic choice. After comparing the three mechanisms, I argue that top managers' executive connections facilitate the firm's internationalization, whereas legislative connections hinder the firm's internationalization.

Furthermore, I propose two moderators for the relationship between top managers' political connections and the firm's degree of internationalization: type of ownership and the dual role of chief executive officer (CEO) and chairman of the board. In the existing literature, state ownership is sometimes considered as an indicator of political connections of the firm (e.g., Berkman, Cole, & Fu, 2010; Cui & Jiang, 2012). However, I argue that it is necessary to differentiate between the top managers' political connections and the firm's state ownership. The former is established through managers' self-initiatives, whereas the latter is granted because of affiliations (Pan et al., 2014). In addition, the literature has shown that top managers in privately-owned firms are also politically connected (Li & Liang, 2014; Peng & Luo, 2000; Wang & Qian, 2011). Therefore, in this chapter, I conceptualize type of ownership as a moderator that affects the strength and direction of the relationship between top managers' political connections and the firm's degree of internationalization through its influence on resources, state control, and

managers' personal values in the organization. Specifically, I argue that top managers' executive connections have a positive impact on the firm's degree of internationalization in privately owned firms, but the effect is much weaker in state owned firms; top managers' legislative connections have a negative impact on the firm's degree of internationalization in privately owned firms, but the effect is much weaker in state owned firms.

CEO duality refers to the practice that the CEO of the firm also chairs the board (Finkelstein & D'Aveni, 1994). CEO duality reduces the constraints of the board over the top managers' actions, and thereby provides greater freedom for top managers to inject their personal values into the firm's strategic choices (Chin et al., 2013). Therefore, I predict that CEO duality strengthens the relationship between top managers' political connections and the firm's degree of internationalization. These conjectures are confirmed by an empirical test based on a dataset of 100 publicly traded Chinese firms over the 2004-2013 periods.

My third chapter makes two major contributions. First, it contributes to the current literature on top managers' political connections by drawing from the political science literature and adding the upper echelons perspective. I propose that top managers' political connections affect firm strategies through three interrelated mechanisms: i) resources, ii) cost, and iii) managers' personal values. The third mechanism is very important, as it explains why managers with executive connections and managers with legislative connections have opposing preferences for internationalization; and why existing research that does not differentiate between the types of managers' political connections has not found any significant relationship between top managers' political connections and the firm's degree of internationalization.

Second, I contribute to the upper echelons literature. IB scholars have found that top management team's demographic attributes, composition and international experience affects the

firm's internationalization strategies (Carpenter & Fredrickson, 2001; Lee & Park, 2008; Reuber & Fischer, 1997; Tihanyi, Ellstrand, Daily, & Dalton, 2000). I add to this literature by establishing the relationship between top managers' political connections and the firm's degree of internationalization. In addition, I extend the upper echelons literature by examining the impact of top management team on internationalization in an emerging collective and socialist country.

3.2 THEORETICAL BACKGROUND

In the finance and management literature, the political connections of the firm are an important topic because political connections have significant implications for firm value and firm strategies. Political connections have previously been operationalized in two major ways. First, scholars have considered the connections of top managers or directors of the board to the government or political parties as an indicator of the firm's political connections (e.g., Faccio, 2006; Zheng, Singh, & Chung, 2015). Second, scholars have operationalized the ownership by the state as an indicator of the firm's political connections (e.g., Berkman, Cole, & Fu, 2010; Meyer, Ding, Li, & Zhang, 2014). Although political connections can be empirically measured in different ways, the theoretical underpinnings for the relationship between political connections and organizational outcomes are similar. Therefore, my literature review on political connections includes a discussion of managers' political connections as well as the role of state ownership.

3.2.1 Political Connections

Previous studies have investigated the impact of political connections on the firms organizational outcomes, based on a variety of theoretical perspectives such as the resource dependence theory, the institutional theory, the resource based view, or network theory (Cui &

Jiang, 2012; Meyer et al., 2014; Peng & Luo, 2000; Zheng, Singh, & Mitchell, 2015). I classify these theoretical frameworks into two groups: the first focuses on the economic or social benefits of political connections, and the second focuses on economic or social costs of political connections to the firm.

First, managers' political connections can yield major economic and social benefits to the firm (Faccio, 2006; Shi et al., 2014). Political connections help the firm to gain privileged access to information and resources such as investment opportunities, bank loans and government subsidies (Claessens, Feijen, & Laeven, 2008). Political connections also help the firm to deal with regulatory processes and oversight, which ultimately influences firm value (Faccio, Masulis, & McConnell, 2006; Faccio, 2006; Fisman, 2001). For instance, Fonseka, Yang, Tian, & Colombage (2015) find that the political connections facilitate the approval for private equity placement from the Chinese Securities Regulatory Commission. Zheng, Singh, & Chung (2015) argue that political connections make it easier for a firm to exit through sell-offs, because such connections can substitute for market intermediation, influence politicians' administrative fiat, and provide resources. In the IB literature, Pan et al. (2014) find that firms with political connections are less influenced by the heterogeneity of host-country institutional environment in their subsidiary ownership decision, because the munificent resources associated with political connections increase the firm's tolerance for risk in its foreign investments.

Second, managers' political connections also generate economic and social costs to the firm via government interventions. Scholars generally agree that government intervention is detrimental for firm value, because governments or related politicians may impose political and social goals on the firm and extract rents from the firm (Berkman et al., 2010). Fan, Wong, and Zhang (2007) find that firms with politically connected managers perform worse than firms

without such political connections because they increase the information asymmetry between shareholders and managers. Moreover, managers and directors of the board in politically connected firms tend to consist of bureaucrats rather than professional managers. Chen, Sun, Tang and Wu (2011) provide further evidence that government intervention through state ownership or the appointment of politically connected managers in the listed firm hurts the firm's investment efficiency.

In the IB literature, Liang, Ren, and Sun (2014) argue that managers' political connections are an indicator of state control, and firms with political connections are more likely to respond to government policies. Since the Chinese government encourages firms to go abroad, firms with politically connected managers are more likely to follow the government's policy and thus have a higher degree of internationalization. Cui and Jiang (2012) argue that state-owned firms are more likely to conform to home-country regulatory restrictions on outward FDI.

As the literature review so far indicates, the conceptualization of managers' political connections as benefits or costs to the firm is the dominant view in the existing literature. This view is largely based on neoclassical economics, the resource dependence theory (Pfeffer & Salancik, 1978) or the institutional theory (DiMaggio & Powell, 1983), which either considers managers as rational optimizers or views managers as being constrained by the external environment with little impact on firm strategy. However, this view neglects that managers build political connections through current and past experience of holding positions in the government; and this personal political experience should also be viewed as a reflection of their personal values (Chin et al., 2013; Li & Liang, 2014). Managers' personal values refer to "principles for ordering consequences or alternatives according to preference" (Hambrick & Mason, 1984: p.195).

The upper echelons theory argues that managers' personal values can influence the organization's decision making process (Hambrick & Mason, 1984). Managers' values can affect the strategic choices of the firm either indirectly, by influencing managers' selection and interpretation of information; or directly, by serving as the principles for managers to evaluate the merits and appropriateness of the actions and decide whether to take the actions (Hambrick & Mason, 1984). Recently, researchers have examined the importance of the manager's political ideology on the firm's organizational behavior. For instance, Chin, Hambrick, and Trevino (2013) find that the CEO's political ideologies affect her managerial actions. Liberal CEOs value social justice, economic equality, planned social change, and controls over markets; while conservative CEOs value individualism, property rights, and free markets. This suggests that liberal CEOs are more likely to engage in initiatives promoting corporate social responsibility relative to conservative CEOs. Li and Liang (2014) are among the first to examine political connections from the upper echelons perspective in the Chinese context. They argue that successful entrepreneurs may seek political appointments in the legislative body of the government for pro-social motives, which implies that their political engagement is a way to fulfill their ultimate goal of serving the larger community or society. These studies have shown that top managers' political activities are indications of their personal values.

In sum, I propose that political connections can influence firm performance and the firm's strategies in three different ways: via i) economic costs and benefits, ii) social costs and benefits, and iii) managers' personal values. These three mechanisms are interrelated. When discussing the implications of different types of political connections on firm value and strategies, it is important to synthesize the total effect of political connections through all three mechanisms, instead of focusing on one mechanism while ignoring the other channels.

3.2.2 Determinants of Internationalization

Internationalization refers to the strategies that a firm uses in order to expand its sales or production across different countries or regions. Internationalization increases the level of uncertainty and complexity of the firm, but it also increases the opportunities for creating economies of scale, economies of scope, accessing new resources and knowledge, and reducing transactions costs (Hitt, Tihanyi, Miller, & Connelly, 2006; Nachum, Zaheer, & Gross, 2008).

The traditional theories of MNEs generally suggest that firms should have an ownership advantage to overcome the liability of foreignness and succeed in foreign markets (Buckley & Casson, 1976; Dunning, 1988, 1998; Zaheer, 1995). In support of this argument, empirical research has shown that intangible resources such as R&D investment, human capital, social capital, and other indicators of firm competitiveness (such as firm size and performance) are positively associated with international diversification (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006). However, there is an ongoing debate in the literature as to how emerging economy firms can afford to go abroad (Cuervo-Cazurra, 2012). Most emerging economies do not have such firm specific advantages. Hennart (2012) argues that some local firms in emerging economies have access to a home country-specific advantage (e.g., monopoly control of critical resources), which they can use to finance their intangible-asset seeking internationalization. Since the government is in control of the allocation of the most critical resources (Pan et al., 2014; Shi et al., 2014), I suggest that top managers' political connections are an invaluable asset that facilitates the internationalization of emerging economy firms.

The firm's degree of internationalization is also determined by the firm's motives to expand overseas. Liang et al. (2014) argue that the level of state control in the firm, which is reflected by top managers' political connections, is positively associated with the firm's degree

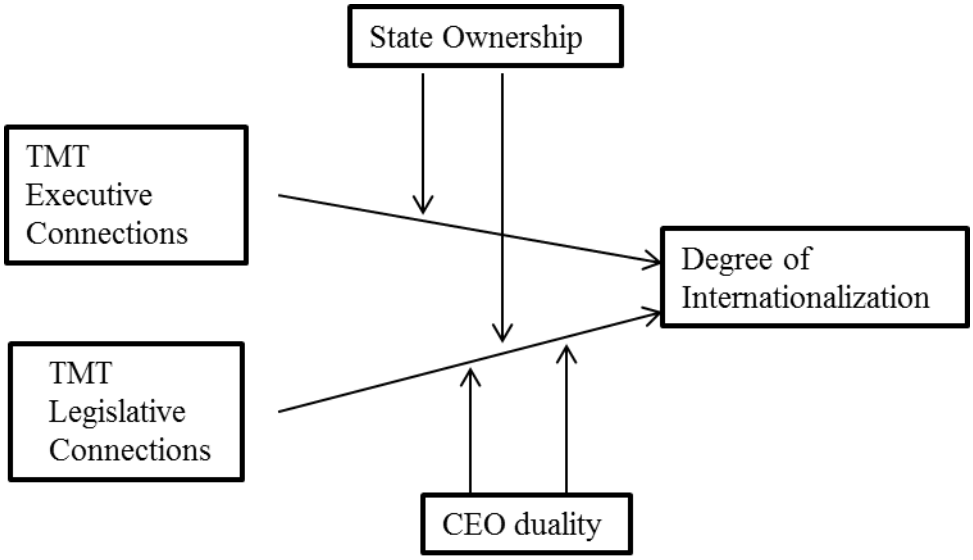
of internationalization because state-controlled firms are more incentivized to comply with the home country government' policy to go global. However, the authors do not find a significant relationship between top managers' political connections and the firm's degree of internationalization. I suggest that the government intervention perspective might be useful for understanding the relationship between top managers' political connections and the firm's degree of internationalization.

The upper echelons perspective has been extended to explain the firm's international diversification. Prior findings suggest that elite education, younger age, heterogeneity and international experience of the top management team are associated with higher levels of internationalization, because these factors reflect the top management team's risk propensity, cognitive base, and capability to process diverse information and access to resources (Carpenter & Fredrickson, 2001; Reuber & Fischer, 1997; Tihanyi et al., 2000). However, these studies have not examined the importance of political ideology and/or the connections of top executives on the firm's degree of internationalization. Recent studies have shown that the top managers can imprint their personal political values into the organizational decision making process (Chin et al., 2013; Li & Liang, 2014). Top managers' political values might have an even stronger role in organizational outcomes in emerging economies because managers need to frequently interact with political actors, and managers have more discretional power due to weak governance (Shi et al., 2014). I suggest that top managers' personal values (as reflected by their political engagement) have an impact on the firm's degree of internationalization.

Integrating the literature on political connections and the antecedents of internationalization, I examine the impact of two types of top managers' political connections (executive and legislative connections) on the firm's degree of internationalization. Executive

connections and legislative connections bring different types of resources to the firm, expose the firm to different levels of government intervention, and imprint different managerial values on the firm's decision making process. I propose that top managers' executive connections are positively associated with the firm's degree of internationalization, whereas top managers' legislative connections are negatively associated with the firm's degree of internationalization. Moreover, I conjecture that this relationship is moderated by state ownership, because the ownership structure affects the level of resources of the firm, the degrees of government intervention in the firm and the extent to which managers' personal values can enter into firm's strategic choices. In addition, drawing from the upper echelons literature, I also conjecture that CEO duality moderates the relationship between top managers' political connections and the firm's degree of internationalization, since CEO duality increases the managers' discretional power over the firm's strategic decisions. The theoretical model of this chapter is depicted in Figure 3-1.

Figure 3- 1: TMT Political Connections and Firm's Degree of Internationalization



3.3 HYPOTHESES

3.3.1 Top Management Team's Political Connections and Internationalization

Drawing on the existing literature, I differentiate between two types of political connections that top managers establish through their personal interactions with political actors: executive and legislative connections (Li & Liang, 2014; Pan et al., 2014; Zheng, Singh, & Chung, 2015). The reason is that these two types of political connections invovle different type of persons and different types of responsibilities. Executive connections are established if the top manager has worked, or is currently working in the executive branch of the government, such as in the state council and its affiliated ministries and bureaus, and in provincial and local governments. Top managers with executive connections are full-time civil servants, and they are directly connected to government agencies that respobile for allocating resources and regulating business activities (Zheng, Singh, & Chung, 2015).

Legislative connections are established if a top manager holds representational appointments in political councils such as the People's Congress (PC) or the People's Political Consultative Conference (PPCC). These connections are different from the western context, such as in the U.S., where a representative position in the legislative branch of the government is a full-time job with the responsibility to introduce bills and resolutions, offer amendments and serve on committees. In China, most deputies of the PC or PPCC are part-time representatives who have full-time jobs and are not paid by the government except for the standing committee of the congress. The major responsibilities of the PC include revising the constitution, making or revising criminal, civil or other basic laws overseeing government operations, and electing government officials (Pan et al., 2014). The PPCC is a political advisory body that consists of non-party members and delegates from a range of political parties. Its main responsibility is to

monitor the implementation of laws and regulations, and to advise the community party and the government regarding important political, economic, cultural or social issues. However, in practice the representatives are rubber stampers that do not have any real power (Truex, 2014). In contrast, the membership in the PC or PPCC provides the representative legitimacy to take actions on social issues. For instance, deputies of PC or PPCC have introduced proposals such as banning smoking in public areas, raising automobile safety standards, and including certain type of diseases under the coverage of social insurance. Truex (2014) find that during the 2008-2010 period, 29.4 percent of CEO deputy proposals at the national congress are on business environment and regulatory conditions, 15.8 percent on raising incomes/employment, and 10.1 percent on environment protection. In summary, a representative position in the wester context entails real legislative power, while in the Chinese context representatives have more limited legislative power and instead provide awareness of important social issues, and bring legitimacy for taking action on social issues.

I argue that these two types of political connections have different influences on the firm's degree of internationalization because these connections are associated with different types/levels of economic and social costs and benefits to the firm, as well as different personal motives/values of top managers.

3.3.2 Executive Connections

In this section I consider three different channels through which executive connections can affect the firm's degree of internationalization. Table 3-1 provides an overview of the hypothesized relationships. Additional details are provided below.

Resources. The executive branch of the government is in control of allocating critical resources and implementing government regulations. Zheng, Singh, and Chung (2015) find that

executive connections can facilitate the firm to exit through sell-offs. They argue that executive connections are valuable to the firm because in emerging economies the executive branch of the government has substantial power to allocate resources and issue licenses and permits for business activities. Through executive connections, firms can reduce information asymmetry and transaction costs, influence regulatory processes, and obtain support from government related sectors. Applying the same logic, I argue that managers' executive connections are valuable for the firm's international expansion. Firms with executive connections can obtain privileged information on overseas markets or investment opportunities, have more relaxed bureaucratic procedures for export or investment to foreign markets, and receive financial support from the government or state-owned banks.

Hennart (2012) notes that emerging economy firms can afford to go abroad not because they have a superior firm-specific advantage, but rather because local firms can derive significant gains from the monopoly control of critical resources in the home country through their connections to the government. These resources can then be used to accumulate capital and finance the firm's intangible-seeking investments abroad. Therefore, executive connections can contribute to the firm's internationalization in terms of both resources and capital.

State control. Liang et al. (2014) argue that managers' executive connections reflect state control over the firm. Because the Chinese government encourages firms to go abroad, politically connected managers are more likely to cater to government policies and engage in internationalization. However, their findings show that managers' political connections are not significantly related to the firm's degree of internationalization. The state tends to appoint government officials as top managers in publicly listed state-owned firms in order to maintain control of the firm (Cui & Jiang, 2012; Fan et al., 2007). In this case, executive connections in

state-owned firms reflect state control over the firm. However, top managers with executive connections in privately-owned firms tend to be government officials or civil servants that withdrew from the government to fully engage in business. This type of connections is therefore not a reflection of state control. In sum, based on the state control view, only executive connections in state-owned firms should be positively associated with degree of internationalization. In contrast, for privately-owned firms the impact of executive connections on the firm's degree of internationalization cannot be explained by the government intervention argument.

Managers' personal values. Adopting the logic of the upper echelons theory, I anticipate that differences in top managers' personal values will be reflected in the firm's international diversification. Top managers' executive connections are built through past or current experience of working in the government as a civil servant (Zheng, Singh, & Chung, 2015). In China, the job as a civil servant is informally called an iron rice bowl, which means that such jobs provide life-long job security. Despite its stability, this type of career is not suitable for everyone because of the constraints and hierarchies in the organization (Ralston et al., 2006). Some civil servants chose instead to withdraw from the government in order to engage in business activities in the private sector. Therefore, top managers with executive connections in privately-owned firms are more likely to be receptive to changes, willing to take risks and be more creative in their decision making process. Firms run by these types of politically connected managers are more likely to initiate strategic changes such as international diversification (Wiersema & Bantel, 1992). In contrast, top managers with executive connections in state-owned firms are more likely to be government officials appointed by the state. Such managers tend to emphasize stability and authority; and to imprint such personal values on the organizational decision making process,

which makes them less likely to initiate strategic changes such as engaging in international diversification (Ralston et al., 2006).

In terms of resources, executive connections provide resources for internationalization for both state and privately owned firms. In terms of state control, top managers' executive connections are not indicators of state control for privately-owned firms, but these connections indicate strong state control in state owned firms and increase the managers' incentive to expand overseas. In terms of personal values, top managers' executive connections in privately-owned firms have a positive impact on the firm's degree of internationalization; but the effect is negative for state owned firms. In sum, I expect a positive relationship between top managers' executive connections and the firm's degree of internationalization.

Hypothesis 1 (H1): Top management team's political connections to the executive branch of the government are positively associated with the firm's degree of internationalization.

Table 3- 1: Summary of Hypotheses

Political connections	Ownership	Mechanism	Predicted effect
Executive connections	Private	Resources	+++
		Government intervention	Insignificant
		Managers' personal values	+++
		Total effect	+++
	State	Resources	Insignificant
		Government intervention	+
		Managers' personal values	-
		Total effect	Insignificant
Legislative connections	Private	Resources	+
		Government intervention	Insignificant
		Managers' personal values	---
		Total effect	--
	State	Resources	Insignificant
		Government intervention	Insignificant
		Managers' personal values	-
		Total effect	Insignificant

3.3.3 Legislative Connections

In this section I consider three different channels through which legislative connections can affect the firm's degree of internationalization. Table 3-1 provides an overview of the hypothesized relationships. Additional details are provided below.

Resources. The legislative branch of the government has the power to formulate national regulations, raise concerns over social and economic issues, and monitor government officials, but it does not have the direct access to national resources. However, this does not mean that legislative connections cannot contribute to resources that benefit the firm's internationalization. Managers with representational appointments in the political council have high social status and they can raise their concerns over social justice or government policies in the annual conferences or media. In this case, government officials in the executive branch might grant firms led by highly influential managers privileged treatment, such as relaxed regulatory oversight (Pan et al., 2014). Therefore, legislative connections is expected to have a much smaller positive impact on the firm's degree of international relative to the impact of executive connections.

State control. Liang et al. (2014) argue that managers' legislative connections reflect state control over the firm. Since the Chinese government encourages firms to go abroad, politically connected managers are more incentivised to cater to government policies and engage in internationalization. However, deputies to the PC or the PPCC are not civil servants appointed by the state, but rather part-time representative members without an administrative ranking. They have their own jobs outside the government sector and are only required to attend the annual conference for a short period of time. Their career stability and promotion are not connected to the degree that they cater to government policies. Therefore, legislative connections cannot be considered as a measure for state control in the firm, which means that legislative connections

should not have an impact on the firm's degree of internationalization through the channel of increased government intervention.

Managers' personal values. Li and Liang (2014) provide an alternative reason for why successful private entrepreneurs in China actively seek political appointments in the PC or the PPCC (i.e., the legislative connections). That is, to achieve the Confucian life goal. They propose that the ultimate goal of life for a person is to serve and benefit the larger society, after taking care of the immediate needs of herself and family members. Being a deputy in the PC or the PPCC provides individuals the legitimacy and channels to raise awareness of social issues and promote the interests of ordinary people (Xia, 2008).

I argue that the concern over societal well-being, as an important personal value, can affect the firm's degree of internationalization. First, prosocial values can affect the firm's internationalization decision directly as top managers may prefer domestic over international investments because the former can better fulfill their motive for serving the society. Second, prosocial values can affect the internationalization decision indirectly when the prosocial values guide the top manager's attention in information gathering, filtering and interpreting process towards the home market. Therefore, I conjecture that firms run by managers with legislative connections are less likely to increase their levels of internationalization.

Given that the legislative branch of the government has marginal power over resource allocation or implementation of government regulations, the positive effect of legislative connections on internationalization through tangible or intangible resource provision is limited. Top managers' legislative connections are not indicators of state control either. Instead, managers' pursuit of such political appointments might be a reflection of the managers' concern for the society wellbeing, and willingness to influence state policy (Li & Liang, 2014). Their

intensive attention on social issues and policies in the home country can actually affect their decision making in the organization, and lead to stronger emphasis on home market. Considering that legislative connections have a limited role in providing resources, but a strong role in influencing managers' attention, I expect a negative relationship between legislative connections and the firm's degree of internationalization.

Hypothesis 2 (H2): Top management team's political connections to the legislative branch of the government are negatively associated with the firm's degree of internationalization.

3.3.4 The Moderating Role of State Ownership

Drawing from different perspectives, state ownership in the firm has been conceptualized as an indicator of state control (Cui & Jiang, 2012; Liang et al., 2014; Pan et al., 2014), an indicator of political support or resources (Berkman et al., 2010; Duanmu, 2014), or as an indicator of organizational structure and culture (Ralston et al., 2006). Liang et al. (2014) argue that state ownership is positively associated with the firm's degree of internationalization, because state-owned firms are more likely to respond to the policy of the government for going abroad. However, other scholars argue that privately-owned firms are more likely to internationalize in order to escape from institutional constraints at home (Yamakawa, Peng, & Deeds, 2007). State-owned firms have privileged resources to support their internationalization (Duanmu, 2014). However, in terms of organizational culture, state-owned firms emphasize stability and predictability in strategy, and thus are less likely to engage in strategic changes such as international diversification; privately-owned firms are featured by entrepreneurship and creativity, which encourages international expansion (Ralston et al., 2006). Different perspectives can lead to opposite predictions for the relationship between state ownership and the

firm's degree of internationalization. I therefore do not have a clear hypothesis for this direct relationship.

Because state ownership can affect resources, goals, and managers' personal values and relative power in the organization, I consider state ownership as a contextual factor that affects the role of managers in organizational strategic decisions. More specifically, I argue that the total impact of top managers' political connections on the firm's degree of internationalization is weakened by state ownership. Table 3-1 provides an overview of the hypothesised moderating relationships.

3.3.4.1 Executive connection and state ownership

Influence on resources. In privately-owned firms, top managers' executive connections can bring valuable resources to the firm. However, in state-owned firms, the affiliation to the government already endows the firm with such resources (Cui & Jiang, 2012). In this case the resources that top managers' political connections can bring in are redundant and thereby do not add incremental impact on the firm's international expansion. This argument is supported by the existing literature, which shows that top managers' political connections are more valuable for privately- owned than for state-owned firms in terms of resource provision in emerging economies (Li & Liang, 2014; Peng & Luo, 2000; Wang & Qian, 2011). Therefore, I expect state ownership to dampen the positive effect of top managers' executive connections on the firm's degree of internationalization. In other words, the positive impact of top managers' executive connections should be much stronger in privately-owned than state-owned firms.

Influence on state control. As I mentioned in section 3.3.2, in privately-owned firms, top managers' executive connections do not represent state control; whereas in state-owned firms, top managers' executive connections reflect state control. Given that top managers' executive

connections align the interest of the top managers with that of the state, such managers are more likely to support the government's "Go Global" policy. Therefore, I expect that state ownership to positively moderate the relationship between executive connection and the firm's degree of internationalization.

Influence on manager's personal value. The upper echelons theory suggests that the relationship between the attributes of the top management team and the firm's strategic outcomes is contingent upon the discretional power of the managers (Chin et al., 2013; Finkelstein & Hambrick, 1990). The discretional power of managers refers to the freedom that top managers are granted in taking actions within the organization (Finkelstein & Hambrick, 1990). It can differ significantly because of firm ownership and national context (Crossland & Hambrick, 2007). In China, state-owned firms are featured by a strong emphasis on hierarchical values (Ralston et al., 2006), which means that employees including top managers are expected to respect authority and to follow the rules and procedures. Therefore, there is limited space for top managers to impose their personal values into the firm's strategic decisions. I expect top managers' executive connections to have a limited impact on the firm's degree of international diversification for state-owned firms. The majority of privately-owned firms that are publicly listed in China are family-controlled firms (Jiang & Kim, 2015), and close family members often assume key managerial positions (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Because top managers are closely related to owners, they are granted more discretional power over the strategic decisions of the firm. Therefore, the personal values of top managers are more likely to be reflected in the firm's decisions. I expect top managers' executive connections to have a much stronger positive impact on the firm's degree of international diversification in privately-owned than state-owned firms.

As I have mentioned earlier in section 3.3.3, in state-owned firms top managers' executive connections are negatively associated with the firm's degree of internationalization, because executive connections reflect the personal preference for stability and authority. In privately-owned firms, top managers' executive connections are positively associated with the firm's degree of internationalization, because such connections reflect managers' receptivity to changes and willingness to take on more risks. Due to the limited managerial discretionary power in state-owned firms relative to privately-owned firms, I expect top managers' executive connections to have a strong and positive impact on the firm's degree of internationalization in privatively-owned firms and a relatively negligible negative impact in state-owned firms.

In sum, both the resource and personal value perspectives support a stronger positive impact of top managers' executive connections on the firm's degree of internationalization in privately-owned than state-owned firms; whereas the state control view suggests that the positive impact should be stronger in state-owned firms than privately-owned firms. Considering the importance of the resource and personal values perspective, I propose that,

Hypothesis 3 (H3): State ownership weakens the impact of top management team's executive connections on degree of internationalization.

3.3.4.2 Legislative connection and state ownership

Influence on resources. Top managers' legislative connections have a limited role in providing resources for international diversification, relative to top managers' executive connections. Truex (2014) find that CEO's appoinment in the national congress in China increases the firm's return on asset by 1.5 percent in a given year, but the benefits are greatest for privately owned firms, and neglibile for state owned firms. State-owned firms can obtain more resources from their inborn connections with the government, which reduces the benefits that a

deputy seat can bring into the firm. Therefore, legislative connections have a positive effect on the firm's degree of internationalization in privately owned firms, but the effect is neglibile in state owned firms.

Influence on state control. As state control does not work as a major mechanism for the relationship between top managers' legislative connections and the firm's degree international diversification, I expect state ownership to have a negligible moderating effect of through this channel.

Influence on manager's personal value. Top managers' legislative connections are a strong indicator of top managers' pro-social values. Because legislative connections can take managers' attention away from international markets, firms run by such domestically-focused managers should have a lower degree of internationalization. This relationship should be weakened by state ownership, which restricts the managers' discretionary power in the firm.

Although in terms of resources, legislative connections should have a stronger positive impact on the firm's degree of internationalization in privately owned firms than in state owned firms, in terms of personal values legislative connections should have a stronger negative impact in privately owned firms than in state owned firms. Even though legislative connections can bring in more resources to the firm, top managers decide how to use the resources. A strong focus on domestic social issues arising from the appintment in the congress might guide managers' attention toward the investment opportunities in the domestic market. Therefore, I expect that personal values have a stronger impact on the firm's degree of internationalization than resources, and the negative association between legislative connection and the firm's degree of internationalization is stronger in privately owned firms than state owned firms.

Hypothesis 4 (H4): State ownership weakens the negative impact of top management team's legislative connections on degree of internationalization.

3.3.5 The Moderating Role of CEO Duality

CEO duality refers to the practice that the CEO also chairs the board (Finkelstein & D'Aveni, 1994). According to agency theory, when the CEO also assumes the position of the chair, the independence of the board is compromised (Dalton, Daily, Ellstrand, & Johnson, 1998), because the CEO can affect the board's objective assessment of the management team by diverting the board's attention. In the upper echelons literature, CEO duality has been used an indicator of managers' relative power (Chin et al., 2013). The extent to which top managers can inject their personal values into the firm's strategic choices is in proportion to their relative power in the firm (Finkelstein & Hambrick, 1990).

The reason that I choose to examine the moderating effect of CEO duality in addition to state ownership is that, state ownership can moderate the main effect between top managers' political connections and the firm's degree of internationalization through three channels (resource, state control and managers' personal value), whereas CEO duality moderates the main effect *only* through managers' personal value. Therefore, the moderating effect of CEO duality can better demonstrate the effect of top managers' personal values on the firm's degree of internationalization.

CEO duality leaves the top managers with greater latitude to inject their personal values into the strategic choices of the firm (Chin et al., 2013). When top managers have substantial power, their personal values can be more vividly reflected in the firm's international expansion. Therefore, the positive impact of the top managers' executive connection on the firm's degree of internationalization should be stronger when the firm is characterized by CEO duality. In

contrast, top managers with legislative connections can better exert their pro-social value into the firm's strategic decisions by hindering the firm's international expansion when the firm is characterized by CEO duality, which results in stronger negative association between top managers' legislative connections and the firm's degree of internationalization.

Hypothesis 5 (H5): CEO duality strengthens the impact of top management team's executive connections on degree of internationalization.

Hypothesis 6 (H6): CEO duality strengthens the impact of top management team's legislative connections on degree of internationalization.

3.4 METHODS

3.4.1 Sample

My sample contains the top 100 publicly listed firms in China based on their number of foreign subsidiaries in the year 2013. I have hand-collected the data on the characteristics of the top management teams and the firm's foreign sales over the 2004-2013 periods. I study Chinese firms in order to test my hypotheses for two reasons. First, my theoretical model emphasizes the importance of different types of political connections on the firms' internationalization strategies. In China, political connections play a significant role in shaping firms' behavior and there are various types and levels of political connections (Shi et al., 2014). Second, China serves as a unique context to extend the studies on top management team. As Hambrick (2007) notes, most studies on top management team are conducted in the US context, but more research is needed in other national system in order to understand the importance of institutional or cultural factors on the role of top management teams. My sample starts in 2004 because foreign direct investment

by Chinese firms started to increase dramatically in this year. After excluding years with missing values on foreign sales, my final sample consists of 646 firm-year observations.

3.4.2 Dependent Variable

The dependent variable is the degree of internationalization, which is measured by the ratio of foreign sales to total sales. The IB literature suggest that the degree of internationalization should ideally be a composite measure that takes into account foreign sales, foreign assets, and geographic spread (Sambharya, 1996; Sullivan, 1994; Tihanyi et al., 2000). However, there are several factors that prevent me from using the composite measure. First, most firms in my sample have just started their internationalization process. For this reason I expect their focus to be on foreign sales rather than foreign production, which should occur at a later stage of internationalization. In addition, most firms do not report foreign assets in their annual reports when the foreign assets constitute only a marginal or negligible proportion of their total assets. Therefore, the ratio of foreign assets to total assets is not necessarily informative. Including it would also greatly reduce the sample size. Second, the correlation between the ratio of foreign sales to total sales and the geographic spread (measured by the number of foreign subsidiaries) in my sample is low, which means that I cannot combine these two measures as a single construct. I choose the ratio of foreign sales to total sales as the measure for degree of internationalization because it reflects the firm's dependence on foreign markets.

3.4.3 Independent Variables

My key independent variables concern characteristics of the top management team, in particular the importance of political connections. The top management team includes the chairperson of the board, the chief executive officer (CEO), the chief operating officer (COO),

the president, senior vice-presents, and executive vice-presidents (Tihanyi et al., 2000; Wiersema & Bantel, 1992). By considering the characteristics of the entire top management team (rather than just the CEOs), I can more accurately capture the characteristics of the firm's most important decision-makers.

TMT executive connection is measured by the percentage of TMT members with political connections established through previous or current experience as a civil servant in the executive branch of the government (Zheng, Singh, & Chung, 2015).

TMT legislative connection is measured as the percentage of TMT members with political connections established through the experience of holding a representational appointment in political councils such as the People's Congress (PC) or People's Political Consultative Conference (PPCC) (Pan et al., 2014; Zheng, Singh, & Chung, 2015).

State ownership is a dummy variable that equals 1 if the ultimate owner of the firm is the state or state-owned companies, and 0 otherwise. I classify privately controlled firms versus state controlled firms based on the identity of the ultimate controller (Berkman et al., 2010; Meyer et al., 2014). Privately controlled firms are controlled by non-government units, such as individuals, foreign companies, collective enterprises, and social entities. Firms controlled by the central or local government or its various entities with more than 20% of voting rights are classified as listed SOEs.

CEO duality is a dummy variable, coded as one if the CEO is also the chairperson of the board and zero otherwise (Finkelstein & D'Aveni, 1994).

3.4.4 Control Variables

I also include several control variables based on the international diversification literature. The first set of control variables concern TMT characteristics (Hitt, Tihanyi, et al.,

2006; Tihanyi et al., 2000). TMT age is calculated the average age of the top management team members. TMT education level is calculated as the average education level of the top management team members. I classify education into five levels: 1 for an education below secondary education; 2 for a secondary education; 3 for a bachelor's degree; 4 for a master's degree; and 5 for a doctoral degree. TMT age heterogeneity is calculated as the coefficient of variation for age, defined as the standard deviation of the age of a top management team member divided by the average age of the top management team (Hambrick, Cho, & Chen, 1996; Wiersema & Bantel, 1992). TMT educational level heterogeneity is similarly calculated as the coefficient of variation for the TMT members' education level. TMT international experience is measured by a composite index. I calculate the percentage of TMT members with an education obtained overseas, and the percentage of TMT members who have worked abroad in a foreign company or in an international joint venture in China. I combine these two percentage measures together by first standardizing each measure, then summing them up and dividing by two (Lee & Park, 2008).

The second set of control variables includes the following firm-specific variables: firm performance, firm size, organization slack, firm age, and prior (i.e., cumulative) international experience (Dunning, 1988; Hitt, Tihanyi, et al., 2006; Nachum et al., 2008). Firm size is measured by the log of total assets. Firm age is calculated as the difference between the year of foreign market entry and the founding year of the firm. Firm performance is measured by return on assets (ROA). Organizational slack is measured by the ratio of the difference between current asset and current liabilities to the total asset (Peng, Li, Xie, & Su, 2009). This ratio reflects the current resources that the firm can allocate to alternate use, such as foreign investment.

In calculating the firm-level variables, I discard any observations from the year of initial public offering (IPO), or the year following the IPO, to reduce the possibility of outliers. For instance, to become a publicly listed company in China companies must obtain the necessary approval from the government and meet certain performance thresholds leading up to the IPO year. The IPO events may therefore influence firm performance during the IPO year. Further, to reduce the incidence of outliers, I winsorize the firm-specific variables at the 1st and the 99th percentile of the distribution.

Finally, I control for industry fixed effects to account for observable differences among firms from different industries in terms of their degree of internationalization.

3.4.5 Empirical Methodology

My data contains observations both in the cross-section (across firms) and in the time-series (over time). I therefore adopt a panel OLS regression framework to investigate the importance of TMT characteristics on the firm's degree of internationalization as follows:

$$\begin{aligned} Y_{i,t} = a_1 &+ b_1 TMT\ EXECUTIVE\ CONNECTION_{i,t-1} \\ &+ b_2 TMT\ LEGISLATIVE\ CONNECTION_{i,t-1} \\ &+ b_3 TMT\ EXECUTIVE\ CONNECTION_{i,t-1} * MODERATOR \\ &+ b_4 TMT\ LEGISLATIVE\ CONNECTION_{i,t-1} * MODERATOR \\ &+ b_5 CONTROL_{i,t-1} + \sum_{k=1}^{8} b_k I\{IND_i = k\} \\ &+ \mathrm{e}_{i,t} \qquad (1) \end{aligned}$$

where $Y_{i,t}$ is firm *i*'s degree of internationalization in year *t*, and *MODERATOR* is a dummy variable either for state control, or CEO duality. Note that all independent variables have been

lagged by one year. $I\{IND_i = k\}$ includes a set of industry dummies (one for each industry). I use robust (heteroscedasticity-consistent) standard errors.

Table 3- 2: Descriptive Statistics

Variables	MEAN	STD	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1. Proportion of Foreign sales	30.50	25.90	1.00													
2. Cumulative Experience	3.87	4.56	0.12*													
3. Firm Size	8.89	1.28	-0.21*	0.47*												
4. Firm Performance	5.05	7.02	-0.16*	-0.06	0.07											
5. Organizational Slack	14.82	19.41	-0.06	-0.03	-0.06	0.38*										
6. Firm Age	13.03	4.66	0.08*	0.34*	0.20*	-0.04	-0.10*									
7. TMT Education heterogeneity	0.20	0.10	-0.02	-0.20*	-0.20*	0.06	0.11*	-0.04								
8. TMT Age Heterogeneity	0.14	0.05	0.12*	-0.04	-0.12*	-0.03	-0.16*	-0.05	0.14*							
9. TMT Average Education	3.48	0.50	-0.14*	0.20*	0.30*	-0.01	0.06	-0.00	-0.39*	-0.25*						
10. TMT Average Age	46.07	3.76	-0.06	0.09*	0.38*	0.01	-0.08*	0.13*	-0.13*	-0.06	0.16*					
11. TMT International Experience	0.19	0.38	0.10*	0.05	0.12*	-0.03	0.01	-0.17*	-0.05	-0.09*	0.09*	0.09*				
12. TMT Executive Connection	0.14	0.22	0.09*	-0.17*	-0.02	-0.03	0.06	-0.06	0.01	-0.07	0.01	0.18*	-0.04			
13. TMT Legislative Connection	0.06	0.13	-0.09*	-0.10*	-0.07	0.05	0.01	-0.03	0.18*	0.02	-0.14*	-0.03	-0.01	0.11*		
14. STATE	0.63	0.48	-0.06*	0.00	0.27*	-0.07	-0.04	-0.07	-0.20*	-0.21*	0.26*	0.39*	-0.14*	0.19*	-0.17*	
15. CEO duality	0.16	0.37	0.03	0.05	-0.03	0.03	0.10*	-0.06	-0.02	0.19	-0.02	-0.19*	0.21*	-0.15*	0.02	-0.19*

Note: Significance level is noted as * $p<0.05$.

3.5 RESULTS

3.5.1 Descriptive Statistics

Table 3-2 provides a correlation matrix for the dependent and independent variables used in this chapter. The correlations are all below 0.5 indicating that multicollinearity is unlikely to be a concern. I also confirm this using the VIF statistic (not reported). Since all of the VIFs are below 1.5 it is highly unlikely that that multicollinearity is a concern.

3.5.2 Estimation Results – Impact of Control Variables

Table 3-3 presents the results for the pooled OLS regression estimated over the full sample of privately-owned and state-owned firms. In the first column of Table 3-3, I examine the importance of the control variables. Starting from the most significant variables, I find that cumulative international experience has a positive and highly significant impact on the firm's degree of internationalization. Next, firm size has a negative and significant coefficient implying that larger firms tend to have a lower degree of internationalization relative to smaller firms. This could be explained by the fact that smaller firms in China are more engaged in the internationalization process. Prior performance, measured by the firm's return on asset of the previous year, has a negative and significant relationship with the degree of internationalization. This finding is particularly interesting, because the existing literature generally suggests that firms with better performance are more likely to engage in international expansion to further exploit their superior firm-specific capabilities and resources (Dunning, 1988). In contrast, my finding suggest that poor past performance may instead stimulate the top managers' to search for international growth opportunities, thereby increasing the likelihood that the firm will increase its degree of internationalization in the following year (Cyert & March, 1963). Organizational

Table 3- 3: Results of Linear Regression Analysis with Full Sample

Variables	(1)	(2)	(3)	(4)
Cumulative Experience	1.567***	1.601***	1.640***	1.534***
	(7.07)	(7.21)	(7.38)	(6.93)
Firm Size	-7.097***	-7.157***	-6.643***	-7.048***
	(7.51)	(7.66)	(7.05)	(7.44)
Firm Performance	-0.530***	-0.460***	-0.447***	-0.503***
	(3.60)	(3.07)	(3.02)	(3.29)
Organizational Slack	0.091	0.077	0.092	0.087
	(1.55)	(1.29)	(1.55)	(1.45)
Firm Age	0.522*	0.535*	0.610**	0.613**
	(1.82)	(1.92)	(2.24)	(2.20)
TMT Average Education	-6.595***	-6.460***	-6.414***	-6.493***
	(2.84)	(2.80)	(2.86)	(2.80)
TMT Average Age	-0.095	-0.206	-0.348	-0.097
	(0.36)	(0.77)	(1.31)	(0.36)
TMT Education Heterogeneity	-24.825**	-20.851**	-19.923*	-21.304**
	(2.41)	(2.02)	(1.90)	(2.07)
TMT Age Heterogeneity	66.320***	69.574***	81.234***	75.100***
	(3.41)	(3.58)	(4.07)	(3.77)
TMT International Experience	8.601***	9.042***	8.319***	7.227***
	(2.74)	(2.87)	(2.69)	(2.58)
TMT Executive Connections		7.772	61.528***	5.921
		(1.61)	(4.00)	(1.20)
TMT Legislative Connections		-19.343**	-25.684**	-14.867*
		(2.47)	(2.29)	(1.77)
STATE=1			5.218*	
			(1.91)	
STATE * TMT Executive connection			-62.159***	
			(3.89)	
STATE * TMT Legislative connection			9.713	
			(0.60)	
CEO Duality				5.810
				(1.52)
CEO Duality * TMT Executive Connection				39.333**
				(2.48)
CEO Duality * TMT Legislative Connection				-50.546
				(1.60)
R^2	0.257	0.266	0.291	0.276
R^2-adj	0.224	0.231	0.254	0.239
N	648	648	646	646
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

Note: The numbers in parenthesis are t-statistics. T-statistics are based on robust standard errors. Significance levels are noted as * $p<0.1$, ** $p<0.05$, *** $p<0.01$, respectively.

slack, as measured by the current ratio of the firm, is not significantly related to degree of internationalization. Firm age also has a positive effect on the degree of internationalization.

Second, I discuss the effects of top management team characteristics on the firm's degree of internationalization. Consistent with prior literature, the TMT age heterogeneity is positively associated with degree of internationalization; and the TMT international experience has a positive and significant impact on the firm's degree of internationalization (Sambharya, 1996; Tihanyi et al., 2000). The average education level of the top management team is negatively and significantly associated with degree of internationalization. The average age of the TMT is insignificant. Top management team education level heterogeneity is negatively and significantly associated with degree of internationalization. These findings pose some challenges to the TMT literature based on the western context, and demonstrate the necessity to incorporate the institutional or cultural factors in examining TMT attributes and heterogeneity.

3.5.3 Estimation Results – Hypothesized Effects

Column 2 of Table 3-3 shows the main effect of top management team political connections. I find that TMT executive connections is positively but not significantly related to degree of internationalization (coefficient = 7.772, *t*-statistic = 1.61). In contrast, TMT legislative connection has negative and highly significant relationship with the degree of internationalization (coefficient = -19.343, $p<0.05$).

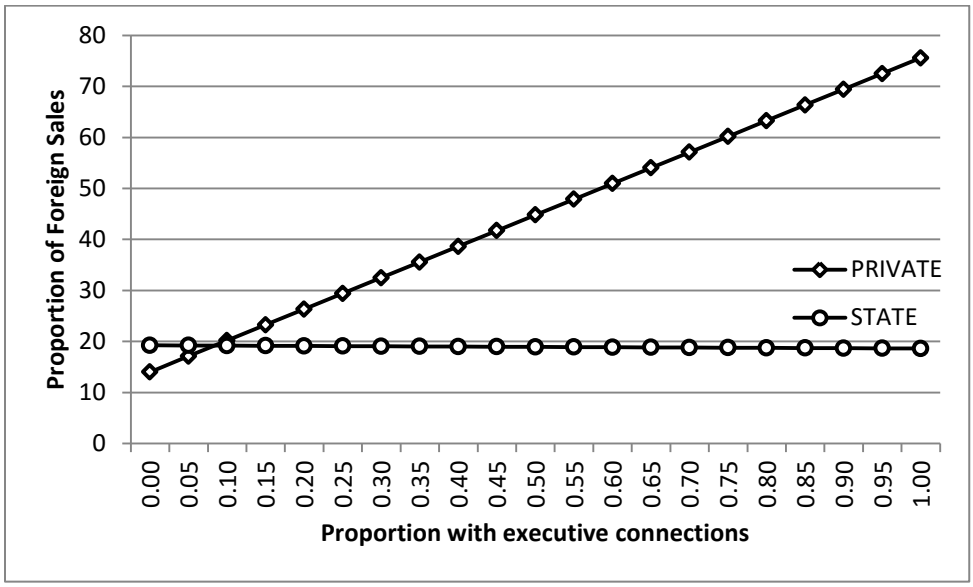
To investigate the importance of political connections further, I include interaction terms between TMT political connections (executive and legislative separately) with state ownership in column 3, and interaction terms between TMT political connections and CEO duality in column 4 of Table 3-3.

As column 3 of Table 3-3 shows, the direct effect of state ownership on the degree of internationalization is positive, but the effect is only marginally significant. This finding is not surprising. State-owned firms may have more resources that support their international expansion, but they are less incentivized to engage in international expansion as their domestic operation is supported and protected by the government. In contrast, private firms may lack the resources to internationalize, but their incentive to escape from the constraints of the home country is also likely to be strong. Therefore, the degree of internationalization is a balanced outcome of the capabilities and the willingness of the firm to internationalize.

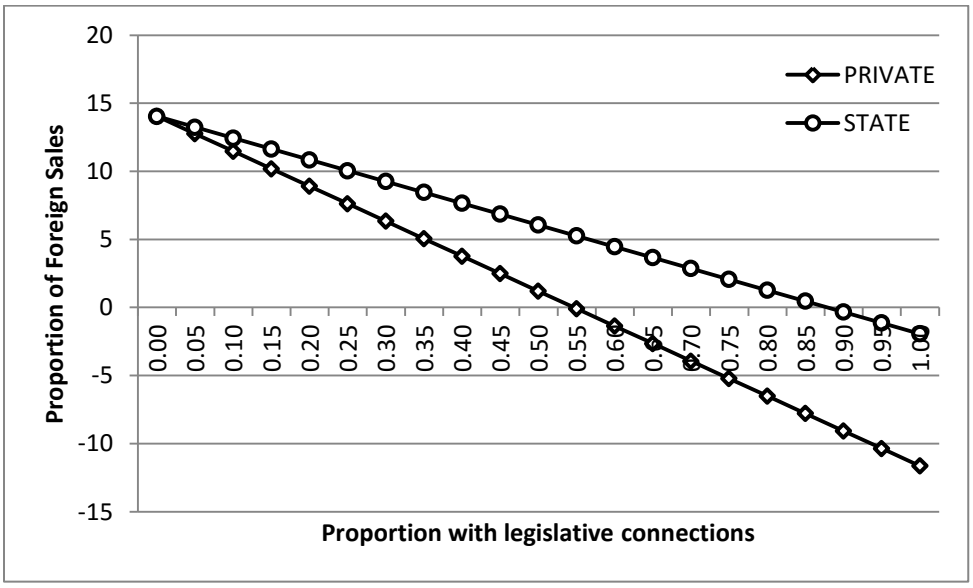
The relationship between TMT executive connection and degree of internationalization is significantly moderated by state ownership (coefficient = -62.159, $p<0.01$). More specifically, TMT executive connections significantly increase the firm's degree of internationalization in privately-owned firms, but this effect is insignificant for state-owned firms. In contrast, while TMT legislative connections have a stronger negative impact on the firm's degree of internationalization for privately-owned relative to state-owned firms, the interaction effect is statistically insignificant. Figure 3-2 presents a visualization of the interaction effect. From Figure 3-2A, we can see that TMT executive connections are positively associated with the firm's degree of internationalization, but the slope is much steeper for privately-owned firms than for state-owned firms. Figure 3-2B shows that TMT legislative connections are negatively associated with the firm's degree of internationalization, but the line is much flatter for state-owned firms than privately-owned firms.

Figure 3- 2: Moderating Effects of State Ownership

A. The Interaction of State Ownership and TMT Executive Connections on Internationalization



B. The Interaction of State Ownership and TMT Legislative Connections on Internationalization



In order to study further how state and privately-owned firms differ in terms of their degree of internationalization and to control for potential endogeneity that arises due to the omitted variable bias, I perform sub-sample regressions for the two groups. These results are reported in Table 3-4. I classify privately controlled firms and state-controlled firms based on their identity of the ultimate controller, resulting in 247 firm-year observations for privately-owned firms and 399 firm-year observations for state-owned firms. For privately-owned firms, Column P-2 of Table 3-4 shows that TMT executive connections have a positive and highly significant impact on the degree of internationalization, while TMT legislative connections have a significantly negative effect on the degree of internationalization. The economic magnitudes are also considerable. For privately-owned firms a one standard deviation increase in TMT executive connections is associated with a 13.4 % increase in the firm's degree of internationalization. Similarly, a one Std. Dev. increase in TMT legislative connections is associated with 3.7 % decrease in the firm's degree of internationalization. Moreover, the adjusted R-square increases from 27.2% to 33.2% in column P-2 when both measures for political connections are included in the model. In contrast to privately-owned firms, neither of the TMT political connection variables is significant for state-owned firms.

Column 4 of Table 3-3 shows the main effect of CEO duality and its interaction effect with TMT political connections on the firm's degree of internationalization. The direct effect of CEO duality is positive, but insignificant (coefficient = 5.810). Based on the organizational theory, CEO duality can facilitate internationalization because it makes the firm's decision making process faster by clarifying the unit of command in the organization (Finkelstein & D'Aveni, 1994). In contrast, based on agency theory, CEO duality can hamper internationalization because CEO duality can make the firm more risk averse. Given that CEO

duality might have both negative and positive impact on internationalization, it is not surprising to find that the direct effect of CEO duality on the firm's degree of internationalization is insignificant.

Table 3- 4: Results of the Sub-sample Analysis Based on Firm Ownership

Variables	**(P-1)**	**(P-2)**	**(S-1)**	**(S-2)**
Cumulative Experience	2.306***	2.414***	1.649***	1.597***
	(5.69)	(6.05)	(5.88)	(5.69)
Firm Size	-11.342***	-10.235***	-6.409***	-6.306***
	(6.71)	(6.26)	(4.90)	(4.85)
Firm Performance	-0.613**	-0.567**	-0.365*	-0.372*
	(2.25)	(2.43)	(1.71)	(1.67)
Organizational Slack	0.081	0.095	0.036	0.040
	(0.73)	(0.89)	(0.60)	(0.64)
Firm Age	-0.185	-0.069	1.374***	1.377***
	(0.38)	(0.16)	(3.89)	(3.92)
TMT Average Education	-13.387***	-13.243***	4.191	4.703*
	(3.46)	(3.56)	(1.52)	(1.80)
TMT Average Age	0.325	0.067	-0.733**	-0.696**
	(0.57)	(0.13)	(2.11)	(1.99)
TMT Education Heterogeneity	-5.835	-2.884	-59.180***	-54.298***
	(0.35)	(0.18)	(4.18)	(3.68)
TMT Age Heterogeneity	73.124**	79.076***	77.180***	82.543***
	(2.27)	(2.77)	(2.74)	(2.94)
TMT International Experience	5.161	4.367	8.026*	7.984*
	(1.23)	(1.11)	(1.76)	(1.75)
TMT Executive Connection		59.848***		-3.604
		(3.63)		(0.77)
TMT Legislative Connection		-27.852**		-14.697
		(2.24)		(1.44)
R^2	0.349	0.408	0.360	0.364
R^2-adj	0.272	0.332	0.317	0.318
N	247	247	399	399
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

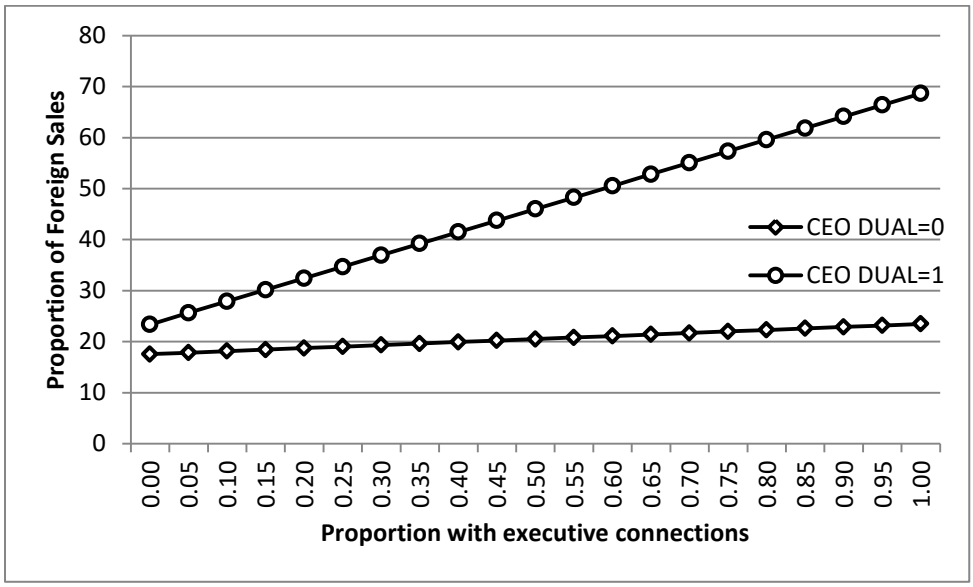
Note: The numbers in parenthesis are t-statistics. T-statistics are based on robust standard errors. Significance levels are noted as * $p<0.1$, ** $p<0.05$, *** $p<0.01$, respectively.

My hypotheses are concerned with the moderating effect of CEO duality on the relationship between TMT political connection and the firm's degree of internationalization. Column 4 of Table 3-3 shows that the interaction between TMT executive connection and CEO duality is positive and highly significant (coefficient=39.333, p<0.05). This suggests that the relationship between TMT executive connections and the firm's degree of internationalization is

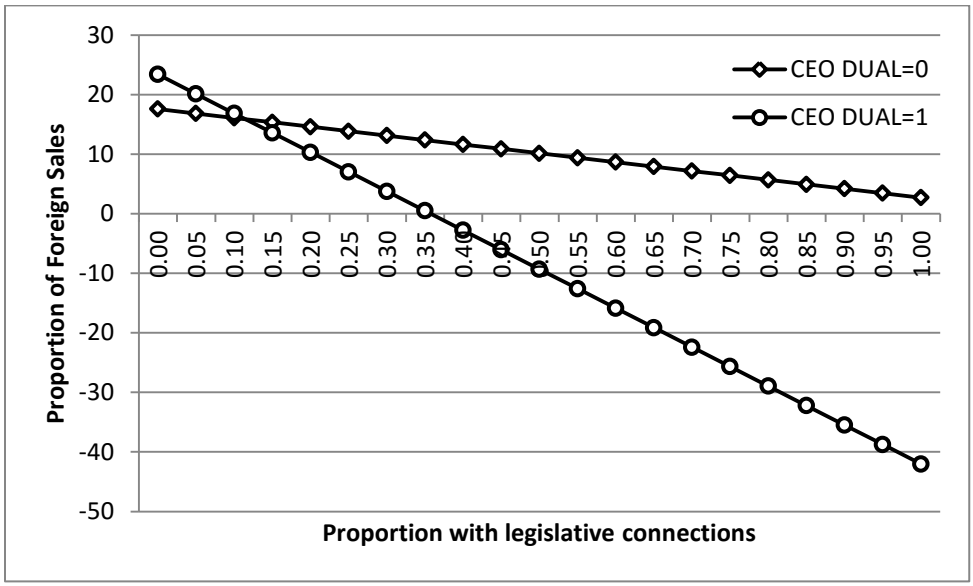
more than seven times stronger for firms with CEO duality (coefficient = 5.921 + 39.333), relative to firms without CEO duality (coefficient = 5.921). In contrast, the relationship between TMT legislative connections and the firm's degree of internationalization is more negative for firms with CEO duality (coefficient = -14.867-50.546), relative to firms without CEO duality (coefficient = -14.867), but the difference is not statistically significant. Figure 3-3 presents a visualization of the interaction effect. From Figure 3-3A, we can see that the slope between TMT executive connection and the firm's degree of internationalization is much steeper when CEO duality equals 1 than when CEO duality equals 0. Figure 3-3B shows that TMT legislative connection has a stronger negative effect when CEO duality equals 1 than when CEO duality equals 0.

Figure 3- 3: Moderating Effects of CEO Duality

A. The Interaction of CEO Duality and TMT Executive Connections on Internationalization



B. The Interaction of CEO duality and TMT Legislative Connections on Internationalization



In order to better illustrate the moderating effect of CEO duality on the relationship between TMT political connection and the firm's degree of internationalization and to control for potential endogeneity that arises due to the omitted variable bias, I perform sub-sample regressions for the two groups. These results are reported in Table 3-5. I divide the sample based on CEO duality, resulting in 105 firm-year observations for firms with CEO duality and 541 firm-year observations for firms without CEO duality. Despite the small sample size for firms with CEO duality, TMT executive connections have a positive and significant impact on the degree of internationalization (coefficient=21.276, $p<0.10$) (see Column 4 of Table 3-5), while TMT legislative connections have a significantly negative effect on the degree of internationalization (coefficient=-68.431, $p<0.05$). The economic magnitudes are also considerable. For firms with CEO duality, a one standard deviation increase in TMT executive connections is associated with a 4.7 % increase in the firm's degree of internationalization. Similarly, a one Std. Dev. increase in TMT legislative connections is associated with an 8.9 % decrease in the firm's degree of internationalization. Moreover, the adjusted R-square increases

from 50.8% to 53.5% in column 4 when both measures for political connections are included in the model. In contrast to firms with CEO duality, neither of the TMT political connection variables is significant for firms that separate the roles of CEO and chair of the board.

Table 3- 5: Results of the Sub-sample Analysis Based on CEO Duality

	CEO duality=0		CEO duality=1	
Variables	**(1)**	**(2)**	**(3)**	**(4)**
Cumulative Experience	1.453***	1.506***	1.382**	1.333***
	(5.61)	(5.78)	(2.63)	(2.67)
Firm Size	-6.028***	-6.075***	-6.783**	-8.697***
	(5.78)	(5.90)	(2.44)	(2.82)
Firm Performance	-0.516***	-0.449**	-0.392	-0.601
	(3.00)	(2.52)	(1.02)	(1.64)
Organizational Slack	0.155**	0.137**	-0.224	-0.173
	(2.40)	(2.06)	(1.45)	(1.11)
Firm Age	0.726**	0.723**	0.861	0.702
	(2.18)	(2.21)	(1.51)	(1.36)
TMT Average Education	-7.742***	-7.590***	7.029	5.268
	(3.10)	(3.03)	(0.71)	(0.61)
TMT Average Age	-0.324	-0.413	0.993	1.103
	(1.17)	(1.47)	(1.17)	(1.37)
TMT Education Heterogeneity	-31.361***	-28.307**	42.236*	41.409*
	(2.73)	(2.42)	(1.77)	(1.79)
TMT Age Heterogeneity	57.307***	60.637***	200.587**	174.973**
	(2.79)	(2.91)	(2.60)	(2.44)
TMT International Experience	5.158*	5.541**	20.897**	10.339
	(1.94)	(2.10)	(2.44)	(1.12)
TMT Executive Connections		6.683		21.276*
		(1.34)		(1.90)
TMT Legislative Connections		-11.722		-68.431**
		(1.37)		(2.09)
R^2	0.270	0.275	0.621	0.651
R^2-adj	0.235	0.237	0.508	0.535
N	541	541	105	105
Year FE	YES	YES	YES	YES
Industry FE	YES	YES	YES	YES

Note: The numbers in parenthesis are t-statistics. T-statistics are based on robust standard errors. Significance levels are noted as * $p<0.1$, ** $p<0.05$, *** $p<0.01$, respectively.

State ownership can moderate the relationship between top managers' political connections and the firm's degree of internationalization by differentiating the impact of resources and top manager's personal values in state and privately-owned firms. However, the moderating role of CEO duality is mainly through enhancing/reducing the influence of top

managers' personal values in state and privately-owned firms. The significant moderating effect of CEO duality further confirms that the top managers' personal value is an important channel between top managers' political connections and the firm's degree of internationalization.

3.6 DISCUSSION AND CONCLUSIONS

In the literature, several perspectives have been used to study the impact of political connections on firm performance and strategies, such as the resource dependence theory, the institutional theory, network theory, the government intervention perspective, and the upper echelons perspective (Chin et al., 2013; Li & Liang, 2014; Meyer et al., 2014; Zheng, Singh, & Mitchell, 2015). This chapter examines the relationship between top management team's political connections and the firm's degree of internationalization through three potential channels: i) resources, 2) state control, and 3) managers' personal value. Relying on data from 100 public listed Chinese firms over the period 2004-2013, I find that the top managers' executive connections have a positive impact on the firm's degree of internationalization, whereas top managers' legislative connections have a negative impact. Moreover, these effects are weakened both by state ownership and the separation of CEO and board chair positions. Specifically, top management team's political connections in privately-owned firms have a significant effect on the firm's degree of internationalization, but these political connections are insignificant for state-owned firms. Similarly, the association between top managers' political connections and the firm's degree of internationalization is significant for firms characterized by CEO duality, but the relationship is insignificant for firms that split the role of CEO and chairperson of the board.

This chapter makes two major contributions. First, it contributes to the current literature on top managers' political connections by theoretically arguing and empirically testing that top

managers' political connection can exert an impact on the firm's internationalization through the personal value channel. Theoretically, I also provide a more comprehensive view of the importance of top managers' political connections by integrating the resource, state control and upper echelons perspectives.

I differentiate between top managers' executive and legislative connections. This is important because these two types of political activities reflect differences in the amount of resources available to the firm, the degree of state control, and the types of managers' personal values. Top managers' executive connections can provide critical resources such as monopoly rents that can facilitate internationalization (Hennart, 2012). State control over the firm through appointment of government officials in the firm is plausible for state-owned firms, but executive connections in privately-owned firms tend to be established through managers' past experience of working in the government. This implies that these connections are not indicators of state control. Since executive connections are formed differently among state- and privately-owned firms, these connections are likely to reflect different personal values. Managers with executive connections in state-owned firms are more likely to emphasize stability and respect authority, while managers with executive connections in privately-owned firms tend to be more receptive to changes and willing to take risks. I argue that these differences in personal values are reflected in the strategic changes of the firm, such as in international diversification.

In contrast, the legislative branch of the government has limited power over resource allocation (Zheng, Singh, & Chung, 2015), which is why these legislative connections cannot contribute much to internationalization in terms of resources. Legislative positions are only part-time work, which does not confer any payment or administrative ranking. Therefore, top managers with representational appoints in the legislative branch of the government cannot be

viewed as being controlled by the executive branch of the government. In this case, legislative connections cannot be considered as an indicator of state control. Instead, these connections reflect the managers' personal prosocial values, i.e., the desire to serve and benefit the society (Li & Liang, 2014). Prosocial values can directly affect the top manager's decision regarding internationalization because individuals with prosocial values will prioritize the home market. Prosocial values may also indirectly affect the firm's internationalization decisions, through the impact on the managers' information gathering, filtering and interpretation of information.

The significant moderating effect of state ownership and CEO duality provides further support to my conjecture that managers' personal values is a major channel between top managers' political connections and the firm's degree of internationalization. The opposite effects of top managers' executive and legislative connections on the firm's degree of internationalization might explain why existing studies that do not differentiate between these two types of political connections have not found any significant relationship between top managers' political connections and the firm's degree of internationalization (Liang et al., 2014).

Second, I contribute to the upper echelons literature. Drawing from the upper echelons' perspective, IB scholars have found that top management team's demographic attributes, composition and international experience affect the firm's internationalization strategies (Carpenter & Fredrickson, 2001; Lee & Park, 2008; Reuber & Fischer, 1997; Tihanyi et al., 2000). However, recent findings in the upper echelons literature suggest that top managers' political values can be injected into organizational decisions have not been incorporated into the IB field. I argue and provide empirical evidence supporting the idea that top managers' political values affect the firm's degree of internationalization. Moreover, the upper echelons literature suggests that the role of the top management team varies across different national contexts

(Crossland & Hambrick, 2007; Hambrick, 2007). My study is among the first to examine the impact of top managers' political engagement on organizational strategies from an upper echelons perspective in an emerging economy context.

This context extends the upper echelons literature in several ways. First, the western literature conceptualizes political ideologies in terms of liberal or conservative orientations (Chin et al., 2013), while China is featured by a different political system and ideologies. The communist party, as the ruling party in China, assigns members to the executive branch of the government, and to key managerial positions in state-owned firms. Meanwhile, individuals, especially non-party members or members of a range of non-ruling parties in China, seek representational appointments in the PC or PPCC to influence government policies and achieve their goal to benefit the larger society. These different ways of political engagement reflect different personal values associated with managers' executive or legislative connections. Second, the upper echelons literature suggests that managerial discretion moderates the relationship between top management team attributes and organizational outcomes (Chin et al., 2013; Finkelstein & Hambrick, 1990). Drawing from the literature on corporate governance in emerging economies, I argue that the type of ultimate owner (state vs. private) affects the level of managerial discretion in the organization. Third, the previous literature on the links between top management team and international diversification find that top managers' age, education, heterogeneity, and international experience affect the level of international diversification in the U.S. context, which is featured by strong individualistic orientation (Tihanyi et al., 2000). In contrast, my third chapter tests the relationship in the Chinese context, which is featured by a collective orientation. My results show that the top management team's age, education level, international experience, and heterogeneity in age and education level significantly affect the

firm's degree of international diversification. However, the direction of these effects is not always consistent with the predictions obtained in the U.S. context, and the effects differ significantly between privately and state-owned firms. These findings add to the emerging literature that investigates the impact of national contexts on the role of top managers in corporate strategies (Crossland & Hambrick, 2007; Qian, Cao, & Takeuchi, 2013).

3.6.1 Limitations and Future Research Opportunities

My results should be interpreted within the context of the study's limitations. First, top managers' political connections can be established through a variety of ways. Following the literature, I use the direct measures of formal connections that can be easily identified by checking the manager's profile in the firm's annual report or on the firm's website. However, managers can be connected with political actors through various informal ways, such as by having a personal relationship with a government official, by being related to a government official, or by bribing a government official. It would, however, be very difficult to collect such data. It is also not clear to what extent these informal ties can contribute to firm's resources (Faccio, 2006; Zheng, Singh, & Mitchell, 2015).

Second, I focus on the political connections of the top managers, because they are directly responsible for making and implementing the firm's strategic changes. However, political connections of the firm can also be accumulated through board membership. Future research could investigate how board members' political connections affect firms' internationalization. In addition, future research can examine how top managers' social background and industry experience affect the firm's internationalization.

Third, I measure the degree of internationalization based on the proportion of foreign sales to total sales. The unidimensional measure may fail to fully capture the breadth and depth

of the firm's degree of internationalization for some types of firms. However, this should not be a serious concern. Most firms in my sample have just started their internationalization process, which is why I can focus on foreign sales rather than foreign production. In addition, the reason that most firms do not report foreign assets in their annual reports is that foreign assets constitute only a marginal or negligible proportion of their total assets. Therefore, the ratio of foreign sales to total sales largely captures the importance of foreign markets to the firm.

Forth, following the upper echelons literature that uses observable demographic factors for top managers to capture their unobservable psychological process and cognitive base (Hambrick & Mason, 1984), I use the type of political activities (observable) that top managers have engaged in as an indicator of their personal values (unobservable). Future research could use surveys or interviews to further understand managers' personal values.

CHAPTER FOUR: CONCLUSION

My dissertation examines the role of corporate governance and political connections on emerging economy firm's internationalization behavior. The first chapter examines the joint impact of two internal governance mechanisms (board structure and ownership structure) on the firm's FDI location choice. The second chapter examines the impact of top managers' political connections on the firm's degree of internationalization, and the moderating effect of two internal governance mechanisms (board structure and ownership structure).

In the first chapter, I find that emerging economy firms are more likely to invest in countries with better institutional quality than poor institutional quality. Family-controlled firms with boards composed of a higher proportion of independent directors and characterized by CEO duality are more likely to invest in countries with good institutional quality. In contrast, state-controlled firms with such board characteristics are more likely to enter countries with poor institutional quality.

In the second chapter, I find that the top managers' executive connections have a positive impact on the firm's degree of internationalization, whereas top managers' legislative connections have a negative impact. Moreover, these effects are weakened both by state ownership and CEO duality. Specifically, top management team's political connections in privately-owned firms have a significant effect on the firm's degree of internationalization, but these political connections are insignificant for state-owned firms. Similarly, the association between top managers' political connections and the firm's degree of internationalization is significant for firms characterized by CEO duality, but the relationship is insignificant for firms that split the role of CEO and chairperson of the board.

This dissertation contributes to a better understanding of the role of government involvement in the firm's internationalization (Child & Rodrigues, 2005; Cuervo-Cazurra et al., 2014). In the first chapter, I show that government as the controlling shareholder of listed firms is relatively risk neutral, and its risk preference enters into the firm's FDI location decision through its influence over the board of directors and top managers. In the second chapter, I focus on the political connections of the top management team and demonstrate how top managers' current or past working experience in the executive and legislative branch of the government affect the firm's degree of internationalization through resource provision, government intervention and managers' personal values.

Both chapters contribute to the literature on corporate governance and internationalization by highlighting the importance of corporate governance actors (top management team, shareholders and board of directors) and internal governance mechanisms (board and ownership) on the firm's internationalization decisions (Bhaumik et al., 2009; Buckley & Strange, 2010; Tihanyi et al., 2000). The first chapter explains the firm's FDI

location choice based on an analysis of the risk preferences of shareholders and top managers and the monitoring role of the board. The second chapter confirms that top managers' personal values can enter into the firm's internationalization decision, and the extent to which top managers' personal values affect firm's internationalization is moderated by two governance mechanisms (state ownership and CEO duality).

In addition, both chapters contribute to the theories of MNEs by demonstrating how the unique institutional environment of the home country affects the firm's internationalization decisions (Contractor, 2013; Cuervo-Cazurra, 2012; Luo & Tung, 2007). The traditional theories of MNEs argue that firms need to have ownership advantage to support their internationalization (Dunning, 1988; Rugman & Nguyen, 2014), but the internationalization of emerging economy firms is facilitated by factors such as home government support, entrepreneurship, and cultural traits (Contractor, 2013; Hennart, 2012). My dissertation shows that the institutional environment in emerging economies shapes the risk preferences of corporate governance actors and the monitoring role of the board, and shapes the incentives for managers to build and maintain political connections and the discretional power that managers have over the firm's strategic decisions. Therefore, the influence of corporate governance and political connections on the firm's internationalization is a reflection of the role of home country institutional environment on the firm's internationalization.

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